**STATE OF NORTH CAROLINA**
**UTILITIES COMMISSION**
**RALEIGH**

DOCKET NO. E-2, SUB 931
DOCKET NO. E-7, SUB 1032

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

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| DOCKET NO. E-2, SUB 931<br><br>In the Matter of<br>Application by Carolina Power & Light Company, d/b/a Progress Energy Carolinas, Inc., for Approval of Demand-Side Management and Energy Efficiency Cost Recovery Rider Pursuant to G.S. 62-133.9 and Commission Rule R8-69<br><br>DOCKET NO. E-7, SUB 1032<br><br>In the Matter of<br>Application of Duke Energy Carolinas, LLC, for Approval of New Cost Recovery Mechanism and Portfolio of Demand-Side Management and Energy Efficiency Programs | ) | COMMENTS OF THE PUBLIC STAFF |

NOW COMES THE PUBLIC STAFF - North Carolina Utilities Commission (Public Staff), by and through its Executive Director, Christopher J. Ayers, and submits the following comments.

1. On January 20, 2015, in Docket No. E-2, Sub 931, the Commission issued an *Order Approving Revised Cost Recovery Mechanism and Granting Waivers* (DEP Mechanism Order) wherein it approved changes to the Demand-Side Management and Energy Efficiency (DSM/EE) Incentive and Cost Recovery Mechanism (DEP Mechanism) approved for Duke Energy Progress, LLC (DEP), in Docket No. E-2, Sub 931, and stated in Decretal Paragraph No. 7:

> That the Public Staff shall initiate a formal review of the Company's Mechanism not later than February 1, 2019, unless requested to do so earlier by the Commission, the Company, or another interested party. The Public Staff's review should specifically address whether the incentives in the Commission-approved Mechanism are producing significant DSM and EE results; whether the customer rate impacts from the DSM/EE rider are reasonable and appropriate; whether overall portfolio performance targets should be adopted; and any other relevant issues that may be identified during the review process.

DEP Mechanism Order, at 7.

2. On August 23, 2017, in Docket No. E-7, Sub 1032, the Commission issued an Order Approving DSM/EE Rider, Revising DSM/EE Mechanism, and Requiring Filing of Proposed Customer Notice. The Order, among other things, revised the DSM/EE mechanism by which Duke Energy Carolinas, LLC (DEC) recovers its DSM/EE costs and incentives (DEC Mechanism), effective January 1, 2018.

3. On February 1, 2019, the Public Staff filed a Motion to Establish Comment Cycle in Docket Nos. E-2, Sub 931, and E-7, Sub 1032. The Public Staff recommended that the Commission initiate a review of the DEP and DEC Mechanisms in a joint proceeding, with initial comments due in 120 days and reply comments due 30 days thereafter. In addition, the Public Staff recommended that the parties address the topics specified by the Commission in Ordering Paragraph No. 7 of the DEP Mechanism Order, as well as other relevant issues. The Public Staff also recommended that any suggested changes to the DEP and DEC Mechanisms be presented by filing a redlined version of Maness Exhibit I, filed on

September 4, 2018, in Docket No. E-2, Sub 1174, for DEP and/or Maness Exhibit II filed on May 22, 2018, in Docket No. E-7, Sub 1164, for DEC.

4. The Commission granted the Public Staff's motion on February 6, 2019, allowing the Public Staff and other intervenors to file comments on or before June 7, 2019, and for parties to file reply comments on or by July 10, 2019. The Commission specified that the review should address whether the incentives in the Mechanism are producing significant DSM/EE results; whether the customer rate impacts are reasonable and appropriate; whether overall portfolio performance targets should be adopted; and any other relevant issues.

5. On May 30, 2019, the North Carolina Attorney General's Office (AGO), filed a motion requesting that the dates for comments and reply comments be extended to July 10, 2019, and August 7, 2019, respectively. The Commission granted the AGO's motion on May 31, 2019.

**RESPONSES TO SPECIFIC QUESTIONS POSED BY THE COMMISSION**

6. The first Commission question is whether the incentives in the DEP and DEC Mechanisms are producing significant DSM and EE results. The Public Staff responds as follows:

a. The Public Staff interprets "incentives" to be directly related to the sections of the Mechanism that pertain to the Portfolio Performance Incentive (PPI) and the Additional Incentive. The Public Staff is not considering net lost revenues as an incentive in this context as their recovery serves to remove a disincentive to implementing DSM and EE measures.

b. The Public Staff analyzed the performances of DEC's and DEP's DSM/EE portfolios with regard to these two sections.

c. Data provided by DEC and DEP in their DSM/EE Cost Recovery Rider exhibits provide updated Vintage Year calculations for both Companies' PPI utility incentives received from 2015 - 2018. These are updates to the original forecasts and are based on program updates on actual participation, avoided cost savings, and EM&V reports. These Vintage Year calculations are provided as Exhibit 1.[1]

d. The performance target adopted in the Additional Incentive section of the Mechanism arose from a settlement between the Companies and a number of intervenors, including SACE, in South Carolina. Since the last Mechanism review, neither DEC nor DEP have claimed this additional incentive.

e. The Public Staff believes it would be very difficult, if not impossible, to precisely determine the extent of, or the exact factor(s) that affect DEC and DEP's achievement of DSM/EE savings, including any correlation between a higher utility incentive and greater energy savings.

f. Changes to the level of incentive for the utility do not directly impact the cost effectiveness of DSM/EE programs, as the utility incentive is not a cost in the calculation of cost effectiveness, but instead a reward

[1] Because the data takes time to finalize, the data provided in the exhibit for the more recent years should be viewed as close approximations, rather than absolutes.

to the utility for achieving cost-effectiveness. Thus it is inappropriate to view program cost effectiveness as an indicator of the optimal level of incentive. Likewise, the level of utility incentive does not totally encompass the benefits to participating customers, as it only addresses net reductions in utility costs, not bill reductions for participants (some of which might be transferred to non-participants).

g. The Mechanism establishes the utility incentive as a percentage of net EE savings (total avoided cost savings minus program costs), which incentivizes the Companies to maximize their savings and minimize their costs. Under the current method of setting DSM/EE revenue requirements, the utility incentive, by providing a margin over annual DSM/EE expenses, adds basis points to the utility's rate of return on equity rather than providing a distinct rate of return on equity on DSM/EE activities. A margin on operating costs for DSM/EE is not directly comparable to a rate of return on investment.

h. Although the Public Staff does not have a definitive answer to the question of whether the utility incentive is set at the optimal level for producing significant savings, there is another way to assess utility performance. A study of DSM/EE market potential in North Carolina shows how actual savings compare to achievable savings. Such a study should be conducted periodically to reflect changing market and economic conditions, may suggest ways to increase savings from existing programs, and may identify additional programs or measures for use in North

Carolina. DEP performed a market potential study in 2012, and since then DEC and DEP have jointly performed a market potential study (in 2016). The Public Staff believes that both DEC and DEP should plan to conduct another study beginning in late 2019 or early 2020.

i. Finally, it should be noted that when the Commission reviews the type and level of utility incentive for reasonableness, it is doing so on the basis of a particular portfolio of programs and particular cost effectiveness and net savings results. In other words, it is a snapshot. Actual results – in terms of both DSM/EE savings and incentives to the utility – will vary over time as the portfolio, the impacts, and customer participation change.

j. Additionally, the amount of an incentive paid by the utility to a customer participating in a DSM or EE program (a participant incentive), which is provided by the utility for some programs (and is not to be mistaken with the utility incentive described above), has a large impact on customer participation. The participant incentive is considered a program cost and thus has an impact on cost effectiveness. The participant incentive is not specifically addressed in the Mechanism, but recovery of program costs are handled under the Cost Recovery section of the Mechanism.

k. Appendix 1 provides a Vintage Year breakdown of DEC's and DEP's total cost for Vintage Years 2014 through 2018 to illustrate the customer incentive cost portion. Depending on the size of the upfront cost, customers may require a greater incentive to participate in a given program. However, higher customer incentives resulting in greater participation may lead to higher program costs, which may lower cost effectiveness.

7. The second question posed by the Commission is whether customer rate impacts from the DSM/EE rider are reasonable. The proposed DSM/EE rider recently filed in Docket No. E-2, Sub 1206 would result in residential rates equaling $0.00595/kWh over base rates, with an impact of $5.95 on the typical 1000 kWh monthly residential bill, or $71.40 per year. However, this immediate rate impact must be considered in light of the long-term costs that customers avoid by not having to pay for additional supply side resources. The avoided cost comparison is performed in the Commission-approved cost effectiveness tests. Because the DSM/EE programs generally must be cost effective to continue (with the exception of the Low Income program and potentially certain other socially beneficial programs), the costs of the DSM/EE programs by definition would be less than the supply side alternatives. In determining applicable costs, it should be noted that although the Public Staff considers all four main cost effectiveness tests in its reviews of programs filed for approval (the Utility Cost (UC) test, the Total Resource Cost (TRC) test, the Participant test, and the Rate Impact Measurement (RIM) test), the main emphases of the Public Staff's review in this regard are the results of the TRC and UC tests, which focus on total costs to (a) the utility and DSM/EE participants and (b) the utility alone (and thus overall utility revenue

requirements), respectively. (The Participant and RIM tests, which focuses on the impacts of DSM/EE programs on participants and non-participants, respectively, is not emphasized as strongly in the Public Staff's reviews.) Additionally, it should be noted that the TRC and UC tests do not include the cost of the portfolio program performance incentive (PPI) or the net lost revenues (NLR) paid for the first 36 months of a program vintage pursuant to the Mechanism.[2] This exclusion is considered reasonable because (a) these are both incentives paid to the utility to encourage it to engage in DSM/EE activities that might be considered adverse to its natural business interests, (b) the PPI, being limited to a percentage of net DSM/EE savings, cannot by definition negate those savings, and (c) NLR, in that it simply compensates the utility for demonstrable earnings losses, is perhaps better considered as the removal of a disincentive, rather than a net earnings-positive incentive. Given these factors, the Public Staff views the rate impacts on customers as continuing to be reasonable, because the cost effectiveness ratio of DEP's DSM/EE portfolios and programs, taking into account the above parameters, is generally above 1.00 under the UC and the TRC tests (except for specific programs that are under close scrutiny by the Commission and Public Staff). It should also be noted that under the PPI methodology, programs with UC test results below 1.00 generally reduce the level of the PPI.

[2] Collection of NLR for a program vintage ceases either at the end of 36 months or upon the implementation of new rates approved by the Commission in a general rate case or comparable proceeding to the extent these rates are set to explicitly or implicitly recover the NLR associated with those kWh sales reductions, whichever occurs first.

With regard to DEC, the proposed DSM/EE rider recently filed in Docket No. E-7, Sub 1192 would result in residential rates equaling $0.004835/kWh over base rates, with an impact of $4.84 on the typical 1000 kWh monthly residential bill, or $58.08 per year. However, as is the case with DEP, the Public Staff views the rate impacts on DEC's customers as continuing to be reasonable because the cost effectiveness ratio of DEC's DSM/EE portfolio and programs is generally above 1.00 under the UC and the TRC tests (except for specific programs that are under close scrutiny by the Commission and Public Staff).

8. The third Commission question asks whether portfolio performance targets should be adopted. The current DEP and DEC Mechanisms each include as Additional Incentive a bonus incentive of $400,000 if the respective Company achieves incremental energy savings of 1% of the prior year's system weather-normalized retail electricity sales in any year during a specified five-year period. As discussed in response to the first question, since the inclusion of this bonus incentive, it appears that DEC may have achieved the 1% target in 2017, but did not request the additional incentive in the 2018 rider. The Companies did not achieve the targets in the remainder of the years during the applicable periods. It is unclear why the performance targets were not achieved – and it is likely that there are a number of factors. The Public Staff supports continuing to include provision for an annual bonus incentive, but believes that an incentive based on shared savings incentivizes the utility to prioritize both cost-effectiveness and kWh or MW savings. Maximizing cost-effectiveness is important for consumers – to receive the most benefits at the least cost. With a kWh-sales-based

performance target, as long as the benefits outweigh the costs by any amount, i.e., as long as a program is cost-effective, the utility is incentivized to maximize kWh savings. Coupling these two types of incentives gives the utility incentive to pursue both programs with high cost effectiveness, as well as programs with lower cost-effectiveness, but great potential for kWh savings.[3]

## PROPOSED REVISIONS TO THE MECHANISM

9. The Public Staff's recommended changes to DEC's and DEP's Mechanisms are shown on Exhibits 2 and 3, respectively.

10. Among the changes that the Public Staff is proposing to the DEC and DEP Mechanisms are the following relatively minor items:

(a) Harmonization of the language of the two Mechanisms to reflect the fact that that the two Companies are now more fully integrated than they were in 2013 and 2014, the years in which the DEC and DEP Mechanisms, respectively, were most recently revised in a comprehensive manner. In some cases, the existing language describing certain requirements and processes reflects the perspectives and preferences of the totally separate pre-merger utilities, even though the underlying principles did not differ, even at that time. In others, the processes used

[3] The Public Staff believes it is vital that the Commission require that programs be cost-effective or be closed according to the provisions of the Mechanism. (Both Utilities' Mechanisms provide that low-income programs are not required to be cost-effective.) Programs with lower or marginal cost-effectiveness would generally be more at risk of becoming non-cost-effective. In that case, DSM/EE is no longer a least-cost alternative, and consumers' rates would likely be higher than if the utility had pursued another least-cost supply-side option.

by the now-affiliated Companies have changed somewhat since the merger, and the existing language needs to be revised to reflect those changes.

(b) Language to clarify when it is appropriate to bundle measures for the purposes of program approval or modification. The use of bundling can be effective for creating a more cost effective program, however, when unrelated measures' technologies and/or delivery channels are pooled together, it may create a disconnect between a program's original intent and the synergies that the program is targeting.

(c) Language to better define the function of the Carolinas EE Collaborative.

(d) Elimination of certain paragraphs in the DEP Mechanism that have become obsolete due to the passage of time.

(e) Inclusion of the currently effective Net Found Revenues Decision Tree and the currently effective DEC EM&V Agreement as exhibits to the DEC Mechanism.

(f) Miscellaneous typographical revisions.

11. In addition to these minor changes listed above, the Public Staff proposes the following more significant changes to the Mechanisms:

(a) A reduction in the shared savings percentages from 11.50% and 11.75% for DEC and DEP, respectively, to 10.00% for each Company. This change is based on an updated consideration of the margin produced by the net present value of the Portfolio Performance Incentive (PPI) over the net present value of each Company's currently estimated Vintage Year 2020 DSM/EE program cost. The pre-tax margins over eligible costs that would be produced by the existing PPI shared savings percentages as applied to Vintage Year 2020 estimated net savings in DEC's and DEP's most recent DSM/EE rider filings would be approximately 22% in the case of DEC and 17% in the case of DEP. The Public Staff believes that this level is higher than the Company needs as an incentive to engage in cost-effective DSM/EE activities, and that a more reasonable pre-tax margin of "revenues" over costs would be in the neighborhood of 15%-20%. A margin of this size is still quite generous, and should sufficiently incentivize DEC and DEP to pursue cost-effective DSM and EE programs. An even lower margin would not necessarily be unreasonable; however, the Public Staff believes that changes in the Companies' utility incentives are better taken somewhat gradually, rather in a sudden dramatic fashion. Therefore, based on the most current estimates of Vintage Year 2020 program costs and avoided cost savings produced by the Companies' DSM/EE portfolios, the Public Staff is recommending a PPI shared savings percentage of 10.00%, which would produce estimated margins of approximately 19% for DEC and 15% for

DEP over the net present value of estimated eligible Vintage Year 2020 DSM/EE program costs.

The Public Staff believes that the business of utility-sponsored DSM and EE programs and their acceptance by ratepayers has significantly matured since early years, where utilities were generally seen as profit maximizing companies whose chief goal was to increase energy sales. Today, it is generally accepted that Duke's DSM/EE programs are designed to increase customer electricity value, not merely from the reductions in their electricity bills; but also, from the value associated with an efficient use of resources.

While acknowledging the incentive is not the same as a return on equity, both items reflect a reward for taking risk and the associated opportunity costs with the utility's investments in DSM/EE. As such, DEC's 110 basis point reduction in its allowed return on equity (ROE) from that at the time of the February 9, 2010, Order in Docket No. E-7, Sub 831, to today and the 93 basis point reduction in RRA's average electric utility ROE indicate a lower incentive rate is not unreasonable.[4]

The Commission stated in its June 15, 2009 Order in Docket No. E-2, Sub 931, that it believes that the decision on the issue of incentives is by nature "a balancing act." The Order stated that "incentives should not

[4] DEP's 2013 general rate case in 2013 was its first since 1988; however, similar declining pressures on its needed return on equity can reasonably be assumed to have taken place during the same time frame.

be excessive, but they must be sufficient to motivate PEC to deploy DSM/EE programs effectively and aggressively." The Public Staff is of the opinion that even with the proposed reduction in the PPI sharing percentage, that "the overall package of incentives …, in addition to the … annual rider with a true-up, and the authority … to defer and amortize … DSM/EE costs with a return, is very generous and should be sufficient to properly motivate" the Companies, as the Commission found in the 2009 Sub 931 Order.

(b) A change in the length of the forecast of cost-effectiveness used in program modification filings from five years to one year. A new program application is filed with a five year projection for how the program is expected to perform under the new modifications. However, once a program is deemed in the public interest and approved for inclusion into the Companies' portfolios, it is subject to cost recovery in the annual DSM/EE rider proceedings, where it is evaluated under a one year forecast to demonstrate its expected performance during the rate period. This proposed Mechanism change would require a program modification filing to include a one-year projection of cost-effectiveness rather than the current five-year projection.

The Public Staff believes that a five year forecast is suitable for program approval as it provides the justification and reasonableness for a program to be included in the Company's portfolio of programs. The

Public Staff also believes that after a program is included into the portfolio, that all filings, modification and rider, should be based on a one year forecast to better align with the Company's annual cost recovery methodology. The Public Staff believes that allowing program modifications to use a five year forecast creates a disconnect between the cost effectiveness of the modification filing and cost effectiveness of the Company's program portfolio in its upcoming rider proceeding.

12. The Public Staff is not recommending any changes to the methodology or calculation of NLR as part of this review. As indicated earlier, NLR, although classified as an incentive, actually acts more as the removal of a disincentive, in that it replaces short-term earnings lost as the result of engaging in DSM and EE activities. However, that does not mean that changes in the amount of NLR allowed (such as a possible reduction in the 36 months of NLR currently approved as part of the Mechanisms) should forever be considered off limits. The Public Staff plans to continue to monitor and consider the appropriateness of the amount of NLR recovery that should be allowed, and may propose changes, either prior to or at the time of the next review of the Mechanisms.[5]

[5] Matters worth future contemplation may include changes in the patterns of filing general rate cases, as well as legislation currently being considered by the General Assembly.

Respectfully submitted this the 10th day of July, 2019.

PUBLIC STAFF
Christopher J. Ayers
Executive Director

David T. Drooz
Chief Counsel

Electronically submitted
/s/ Lucy E. Edmondson
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## CERTIFICATE OF SERVICE

I certify that a copy of these Comments has been served on all parties of record or their attorneys, or both, by depositing a copy in the United States Mail, first class postage prepaid, properly addressed, or by electronic mail upon consent of the receiving party.

This the 10th day of July, 2019.

Electronically submitted
/s/ Lucy E. Edmondson

# Exhibit 1 - Utility Incentives 2015-2018

**Duke Energy Carolinas, LLC**

Source: E-7, Sub 1192 (Miller Exhibit 2) - AS FILED

| | 2015 | 2016 | 2017 | 2018 | |
|---|---|---|---|---|---|
| Residential EE Earned Utility Incentive | $ 4,932,234 | $ 6,702,353 | $ 8,209,878 | $ 9,577,623 | |
| Residential DSM Earned Utility Incentive | $ 2,586,398 | $ 2,729,916 | $ 2,926,195 | $ 2,586,758 | |
| **Total Res:** | $ 7,518,632 | $ 9,432,269 | $ 11,136,073 | $ 12,164,381 | $ 40,251,355 |
| | | | | | |
| Non-Residential EE Earned Utility Incentive | $ 9,817,155 | $ 14,013,960 | $ 21,725,258 | $ 14,437,700 | |
| Non-Residential DSM Earned Utility Incentive | $ 3,375,833 | $ 3,296,886 | $ 3,468,649 | $ 3,335,964 | |
| **Total Non-Res:** | $ 13,192,988 | $ 17,310,846 | $ 25,193,907 | $ 17,773,664 | $ 73,471,405 |
| **Total Res and Non-Res:** | $ 20,711,620 | $ 26,743,115 | $ 36,329,980 | $ 29,938,045 | $ 113,722,760 |

**Note: Column C of Evans Exhibit 1 multiplied by the NC allocation factor

PPI Percentage: 11.50%

**Duke Energy Progress, LLC**

Source: E-2, Subs 1174 and 1206 (Evans Exhibit 1) - AS FILED

| | 2015 | 2016 | 2017 | 2018 | |
|---|---|---|---|---|---|
| Residential EE Earned Utility Incentive | $ 3,878,211 | $ 5,309,864 | $ 5,668,490 | $ 4,133,704 | |
| Residential DSM Earned Utility Incentive | $ 1,886,976 | $ 6,476,491 | $ 5,100,620 | $ 5,263,935 | |
| **Total Res:** | $ 5,765,187 | $ 11,786,355 | $ 10,769,110 | $ 9,397,639 | $ 37,718,291 |
| | | | | | |
| Non-Residential EE Earned Utility Incentive | $ 5,423,024 | $ 6,657,153 | $ 8,276,758 | $ 8,033,611 | |
| Non-Residential DSM Earned Utility Incentive | $ 31,389 | $ (95,995) | $ 164,652 | $ 28,936 | |
| **Total Non-Res:** | $ 5,454,413 | $ 6,561,157 | $ 8,441,410 | $ 8,062,547 | $ 28,519,527 |
| **Total Res and Non-Res:** | $ 11,219,600 | $ 18,347,512 | $ 19,210,520 | $ 17,460,186 | $ 66,237,818 |

**Note: Column C of Evans Exhibit 1 multiplied by the NC allocation factor

PPI Percentage: 11.75%

Exhibit 2

**COST RECOVERY AND INCENTIVE MECHANISM FOR DEMAND-SIDE MANAGEMENT AND ENERGY EFFICIENCY PROGRAMS OF DUKE ENERGY CAROLINAS, LLC**

**(Approved in Docket No. E-7, Sub ____)**







**Definitions**

1. *Common costs* are administrative and general, or other, costs that are not attributable or reasonably assignable or allocable to specific demand-side management (DSM) or energy efficiency (EE) programs but are necessary to design, implement, and operate the programs collectively.

2. *Costs* include program costs (including those of pilot programs approved by the Commission for inclusion in the Mechanism), common costs, and, subject to Rule R8-69(b), any other costs approved by the Commission for inclusion in the Mechanism. *Costs* include only those expenditures appropriately allocable to the North Carolina retail jurisdiction.

3. *Incremental Program Costs* are utility-incurred costs directly attributable and expended solely for a specific DSM or EE Program, and include all appropriate capital costs (cost of capital, depreciation expenses, property taxes, and other associated costs found reasonable by the Commission), implementation costs, incentive payments to Program participants, other operations and maintenance costs, EM&V costs, and administrative and general costs incurred specifically for the Program, net of any grants, tax credits, or other

reductions in cost received by the utility from outside parties and specifically related to the Program.

4. *Low-Income Programs or Low-Income Measures* are DSM or EE programs or DSM or EE measures approved by the Commission to be provided specifically to low-income customers.

5. *Measure* means, with respect to EE, an "energy efficiency measure," as defined in G.S. 62-133.8(a)(4), that is new within the meaning of G.S. 62-133.9(a); and, with respect to DSM, an activity, initiative, or equipment, physical, or Program change, that is new under G.S. 62-133.9(a) and satisfies the definition of "demand-side management" as set forth in G.S. 62-133.8(a)(2).

6. *Measurement Unit* means the basic unit that is used to measure and track the (a) incurred costs; (b) Net Lost Revenues; and (c) net kilowatt (kW), kWh, and dollar savings, net of NTG effects for DSM or EE Measures installed in each Vintage Year for DSM or EE Measures installed in each vintage year. A Measurement Unit may consist of an individual Measure or bundles of Measures. Measurement Units shall be requested by Duke Energy Carolinas (DEC) and established by the Commission for each program in the program approval process, and shall be subject to modification by the Commission when appropriate. If Measurement Units have not been established for a particular program, the Measurement Units for that program shall be the individual Measures, unless the Commission determines otherwise.

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7. *Measurement unit's Life* means the estimated number of years that equipment or customer treatment associated with a Measurement Unit will operate if properly maintained or activities (services or customer behavior) associated with the Measurement Unit will continue to be cost-effective, and produce energy (kWh) or peak demand (kW) savings, unless the Commission determines otherwise.

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8. *Net Found Revenues* means any increases in revenues resulting from any activity by DEC's public utility operations that causes a customer to increase demand or energy consumption, whether or not that activity has been approved pursuant to Rule R8-68. The dollar value of Net Found Revenues will be determined in a manner consistent with the determination of the dollar value of NLR provided in Paragraph No. 8 below. In determining which activities constitute Net Found Revenues, the "Decision Tree" attached to this Mechanism as Attachment C will be applied.

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9. *Net Lost Revenues (NLR)* means DEC's revenue losses, net of fuel costs and non-fuel variable operating and maintenance expenses avoided at the time of the kilowatt-hour sale(s) lost due to the DSM or EE Measures, or in the case of purchased power, in the applicable billing period, incurred by DEC's public utility operations as the result of a new DSM or EE Measure. PPIs shall not be considered in the calculation of NLR or NLR recovery.

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10. *Net-to-gross (NTG) factor* means an adjustment factor used to compute the net kW/kWh savings by accounting for behavioral effects, including, but not limited to, free ridership, moral hazard, free drivers, and spillover.

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Exhibit 2

11. *Portfolio Performance Incentive (PPI)* means a utility incentive payment to DEC as a bonus or reward for adopting and implementing new (as defined in G.S. 62-133.9(a)) EE or DSM Measures and/or Programs. The PPI is based on the sharing of avoided cost savings, net of Program Costs, achieved by those DSM and EE Programs in the aggregate. Such Program Costs will be adjusted as discussed elsewhere in this Mechanism. PPI excludes NLR.

12. *Program* means a collection of new DSM or EE Measures with similar objectives that have been consolidated for purposes of delivery, administration, and cost recovery, and that have been adopted on or after January 1, 2007, including subsequent changes and modifications.

13. *Program costs* are costs that are directly attributable or reasonably and appropriately allocable to specific DSM or EE Programs or groups of Programs (for purposes of setting the DSM/EE and DSM/EE EMF riders), and include all appropriate and reasonable Incremental Program Costs, and reasonably assigned or allocated administrative and general expenses and other Common Costs, net of any reasonably assigned or allocated grants, tax credits, Program Cost adjustments as discussed elsewhere in this Mechanism, or other reductions in cost received by the utility from outside parties.

14. *Total Resource Cost* (TRC) *test* means a cost-effectiveness test that measures the net costs of a DSM or EE Program or portfolio as a resource option based on the incremental costs of the Program or portfolio, including both the participants' costs and the utility's costs (excluding incentives paid by the utility to or on behalf of participants). The benefits for the TRC test are avoided supply

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12. *Portfolio Performance Incentive*

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costs (i.e., the reduction in generation capacity costs, transmission and distribution costs, and energy costs caused by a load reduction), valued at marginal cost for the periods when there is a load reduction. The avoided supply costs shall be calculated using net Program or portfolio savings (i.e., savings net of reductions in energy use (NTG impacts) that would have happened even in the absence of the Program. The costs for the TRC test are the incremental net Program or portfolio costs incurred by the utility and participants, plus the increased supply costs for any periods in which load is increased. All costs of equipment, installation, operation and maintenance (O&M), removal (less salvage value), and administration, no matter who pays for them, are included in this test. However, Common Costs shall not be included in a Program-level TRC test used for Program approval purposes, but shall be included in a portfolio-level TRC test. Any grants, tax credits, or other reductions in cost received by the utility or participants from outside parties and specifically related to the Program or portfolio, as applicable, tax credits are considered a reduction to costs in this test.

15. *Utility Cost Test* (UCT) means a cost-effectiveness test that measures the net costs of a DSM or EE Program or portfolio as a resource option based on the incremental costs incurred by the utility (including incentive costs paid by the utility to or on behalf of participants) and excluding any net costs incurred by the participants. The benefits for the UCT are avoided supply costs (i.e., the reduction in generation capacity costs, transmission and distribution capacity costs, and energy costs caused by a load reduction) valued at marginal cost for the periods when there is a load reduction. The avoided supply costs

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shall be calculated using net Program or portfolio savings (i.e., savings net of reductions in energy use (NTG impacts) that would have happened even in the absence of the Program or portfolio). The costs for the UCT are the net Program or portfolio costs incurred by the utility and the increased supply costs for any periods in which load is increased. Utility costs include initial and annual costs, such as the cost of utility equipment, O&M, installation, Program or portfolio administration, incentives paid to or on behalf of participants, and participant dropout and removal of equipment (less salvage value). However, Common Costs shall not be included in a Program-level UCT test used for program approval purposes, but shall be included in a portfolio-level UCT test. Any grants, tax credits, or other reductions in cost received by the utility from outside parties and specifically related to the Program are considered a reduction to costs in this test.

16. *Vintage year* means an identified 12-month period in which a specific DSM or EE Measure is installed for an individual participant or group of participants.

**Application for Approval of Programs**

17. In evaluating potential DSM/EE measures and programs for selection and implementation, Duke Energy Carolinas will first perform a qualitative measure screening to ensure measures are:

(a) Commercially available and sufficiently mature.

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16. This Mechanism shall continue until terminated pursuant to Order of the Commission.

(b) Applicable to the Duke Energy Carolinas service area demographics and climate.

(c) Feasible for a utility DSM/EE program.

18. Duke Energy Carolinas will then further screen EE and DSM measures for cost-effectiveness. For purposes of this screening, estimated incremental EM&V costs attributable to the measures shall be included in the measures' costs. With the exception of measures included in Low-Income Programs or other non-cost-effective programs with similar societal benefits as approved by the Commission, an EE or DSM measure with an estimated TRC test result less than 1.0 will not be considered further, unless the measure can be bundled into an EE or DSM Program to enhance the overall cost-effectiveness of that program. Program measures under consideration for bundling, whether for new or existing Programs, must be consistent with and related to the measure technologies and/or delivery channels currently offered in the Program.

19. With the exception of Low-Income Programs or other non-cost-effective programs with similar societal benefits as approved by the Commission, all programs submitted for approval will have an estimated TRC and UCT test result greater than 1.00. Additionally, for purposes of calculating cost-effectiveness for program approval, the Company shall use projected avoided capacity and energy benefits specifically calculated for the program, as derived from the underlying resource plan, production cost model, and cost inputs that generated the avoided capacity and avoided energy credits reflected in the most recent Commission-approved Biennial Determination of Avoided Cost Rates for

Electric Utility Purchases from Qualifying Facilities as of the date of the filing for the new program approval. However, for the calculation of the underlying avoided energy credits to be used to derive the program-specific avoided energy benefits, the calculation will be based on the projected EE portfolio hourly shape, rather than the assumed 24x7 100 MW reduction typically used to represent a qualifying facility. For purposes of determining cost-effectiveness, estimated incremental EM&V costs attributable to each program shall be included in program costs. Duke Energy Carolinas will comply, however, with Rule R8-60(i)(6)(iii), which requires that Duke Energy Carolinas' biennial Integrated Resource Plan, revised as applicable in its annual report, include certain information regarding the measures and programs that it evaluated but rejected.

20. If a program fails the economic test in Paragraph 19 above, Duke Energy Carolinas will determine if certain measures can be removed from the program to satisfy the criteria established in Paragraph 19.

21. Nothing in this Mechanism relieves Duke Energy Carolinas from its obligation to comply with Commission Rule R8-68 when filing for approval of DSM or EE measures or programs. As specifically required by Rule R8-68(c)(3)(iii), Duke Energy Carolinas shall, in its filings for approval of measures and programs, describe in detail the industry-accepted methods to be used to collect and analyze data; measure and analyze program participation; and evaluate, measure, verify, and validate estimated energy and peak demand savings. Duke Energy Carolinas shall provide a schedule for reporting the results of this EM&V process to the Commission. The EM&V process description should describe not only the

methodologies used to produce the impact estimates utilized, but also any methodologies the Company considered and rejected. Additionally, if Duke Energy Carolinas plans to use an independent third party for purposes of EM&V, it shall identify the third party and include all third-party costs in its filing.

22. For those programs first approved in Duke Energy Carolinas' South Carolina jurisdiction and subsequently in its North Carolina jurisdiction, net dollar savings achieved in the South Carolina jurisdiction will be eligible for consideration of inclusion in the determination of the incentive to be approved by the Commission.

**Program Management**

23. In each annual DSM/EE cost recovery filing, Duke Energy Carolinas shall (a) perform prospective cost-effective test evaluations for each of its approved DSM and EE programs, (b) perform prospective aggregated portfolio-level cost-effectiveness test evaluations for its approved DSM/EE programs (including any common costs not reasonably assignable or allocable to individual programs), and (c) include these prospective cost-effectiveness test results in its DSM/EE rider application.

23A. For purposes of calculating prospective cost-effectiveness in each DSM/EE rider proceeding to be used to determine whether a program should remain in the portfolio, the Company shall assess each program by:

a. Using projected avoided capacity and energy benefits specifically calculated for each program, as derived from the underlying resource plan, production cost model, and cost inputs that generated the avoided capacity and avoided energy credits reflected in the most recent Commission-approved Biennial Determination of Avoided Cost Rates for Electric Utility Purchases from Qualifying Facilities as of December 31 of the year immediately preceding the date of the annual DSM/EE rider filing. However, for the calculation of the underlying avoided energy credits to be used to derive the program-specific avoided energy benefits, the calculation will be based on the projected EE portfolio hourly shape, rather than the assumed 24x7 100 MW reduction typically used to represent a qualifying facility; and,

b. Evaluating each cost-effectiveness test using projections of participation, savings, costs, and benefits for the upcoming vintage year.

23B. The parties acknowledge that prospective cost-effectiveness evaluations are snapshots of the program's performance, and that ongoing cost-effectiveness is impacted by many factors outside the Company's control, including but not limited to market and economic conditions, avoided costs, and government mandates. The parties shall continue to work to maintain the cost-effectiveness of its portfolio and individual programs. However, for any program that initially demonstrates a TRC, determined pursuant to paragraph 23A above of less than 1.00, the Company shall include a discussion in its annual DSM/EE rider proceeding of the actions being taken to maintain or improve cost-effectiveness, or alternatively, its plans to terminate the program.

23C. For programs that demonstrate a prospective TRC, determined pursuant to paragraph 23A above, of less than 1.00 in a second DSM/EE rider proceeding, the Company shall include a discussion of what actions it [sic] has taken to improve cost-effectiveness. Fluctuations of TRC above and below 1.0 should be addressed on a case by case basis.

23D. For programs that demonstrate a prospective TRC, determined pursuant to paragraph 23A above, of less than 1.00 in a third DSM/EE rider proceeding, the Company shall terminate the program effective at the end of the year following the DSM/EE rider order, unless otherwise ordered by the Commission.

24. The Company will seek to leverage available state and federal funds to operate effective efficiency programs. Its application for such funds will be transparent with respect to the cost, operation, and profitability of programs operated with those funds in a manner consistent with its authorized revenue recovery mechanism. Use of such funds helps offset the participant's project costs and is supplemental to Duke Energy Carolina's incentives to participants. As such, these funds will not change the impacts or cost-effectiveness of Duke Energy Carolinas' programs as calculated using the UCT. Further, the amount of avoided costs recognized by the Company will not be reduced if participants also use state or federal funds to offset any portion of their project costs.

Exhibit 2

**Program Modifications**

25A. Modifications to Commission-approved DSM/EE programs will be considered as provided for in Attachment A to this Mechanism.

25B. Modifications filed with the Commission for approval will be evaluated under the same guidelines and parameters used in DEC's most recently filed DSM/EE rider proceeding.

26. If under the Flexibility Guidelines Commission approval of a modification is required, the Company shall file a petition prior to the implementation of the program change no later than 30 days prior to the proposed effective date, pursuant to Commission Rule R8-68.

27. If under the Flexibility Guidelines advance notice is required, Duke Energy Carolinas shall file all program changes no later than 45 days prior to the proposed effective date of the change using the Advance Notice Program Modifications Reporting Template (Template). If any party has concern about the proposed program modification, it shall file comments with the Commission within 25 days of the Company's filing.

28. The Company shall file on a quarterly basis using the Template a notification of all program changes that have been made without Commission preapproval or advance notice.

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29. Whenever a change in a program or measure goes into effect, the baseline cost effectiveness test results should be reset for the purposes of applying the Flexibility Guidelines to subsequent modifications.

**Stakeholder Collaborative**

30. DEC will conduct periodic collaborative stakeholder meetings for the purpose of collaborating on new Program ideas, reviewing modifications to existing Programs, ensuring an accurate public understanding of the Programs and funding, reviewing the EM&V process, giving periodic status reports on Program performance, helping to set EM&V priorities, providing recommendations toward DEC's submission of applications to revise or extend Programs and incentive rate structures, and guiding efforts to expand cost-effective Programs for low-income customers.

31. The Carolinas EE Collaborative is an advisory group made up of interested stakeholders from across North and South Carolina representing a wide array of customer groups and interests related to energy efficiency and demand response. The Collaborative should serve as an open forum for the sharing of information and discussion of topics related to energy efficiency including program design and development, program evaluation, regulatory and other market conditions that will impact program performance, specific issues or topics as requested by the North and South Carolina Utilities Commissions in orders regarding DSM and EE matters, and other topics or issues to achieve the most demand and energy savings possible. The Collaborative should continue to be comprised of a broad spectrum of regional stakeholders that represent a balanced

interest in the Company's DSM/EE effort and its impacts, as well as national or regional EE advocates and experts. The collaborative will continue to determine its own rules of operation, including the process for setting the agendas and activities of the group, consistent with these terms. Members agree to participate in the advisory group in good faith consistent with mutually-agreed upon rules of participation. Meetings are open to additional parties who agree to the participation rules.

32. DEC will provide information related to the development of EE and DSM to stakeholders in a transparent manner. The Company agrees to disclose Program-related data at a level of detail similar to that which it has disclosed in other states or as disclosed by other regulated utilities in the Carolinas. The Company will share all aspects of the development and evaluation of Programs, including the EM&V process.

33. At its discretion, the Company may require confidentiality agreements with members who wish to review confidential data or any calculations that could be used to determine the data. Disclosure of this data would harm DEC competitively and could result in financial harm to its customers. Participation in the advisory group shall not preclude any party from participating in any Commission proceedings.

**Evaluation, Measurement and Verification**

34. EM&V of programs, conducted by an independent third-party using a nationally-recognized protocol, will be performed to ensure that programs remain

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cost-effective. This protocol may be modified with approval of the Commission to reflect the evolution of best practices.

35. EM&V will also include updates of any net-to-gross (NTG) factors related to previous NTG estimates for programs and measures. All of the updated information will be used in evaluating the continued cost-effectiveness of existing programs, but updates to NTG estimates will not be applied retrospectively to measures that have already been installed or programs that have already been completed. If it becomes apparent during the implementation of a program that NTG factors are substantially different than anticipated, the Company will file appropriate program adjustments with the Commission.

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36. Pursuant to the EM&V Agreement approved by the Commission in Docket No. E-7, Sub 979, for the Company's EE programs, with the exception of the Non-Residential Smart$aver Custom Rebate Program, initial EM&V results shall be applied retrospectively to the beginning of the program offering to replace initial estimates of impacts. For the purposes of the vintage true-ups, these initial EM&V results will be considered actual results for a program until the next EM&V results are received. The new EM&V results will then be considered actual results going forward and applied prospectively for the purposes of truing up vintages from the first day of the month immediately following the month in which the study participation sample for the EM&V was completed. This EM&V will then continue to apply and be considered actual results until it is superseded by new EM&V results, if any.

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37. EM&V for the Non-Residential Smart$aver Custom Rebate Program does not apply retrospectively and this program shall be trued up based on the actual participants and actual projects undertaken.

**Opt-Out Eligibility Requirement for Industrial Customers and Certain Commercial Customers**

38. Commercial customers with annual consumption of 1,000,000 kWh or greater in the billing months of the prior calendar year and all industrial customers that implement or will implement alternative DSM/EE Measures may, consistent with Commission Rule R8-69(d), elect to not participate in any utility-offered DSM/EE Measures and, after written notification to the utility, will not be subject to the DSM/EE rider and DSM/EE EMF rider. For purposes of application of this option, a customer is defined as a metered account billed under a single application of a Company rate tariff. For commercial accounts, once one account meets the opt-out eligibility requirement, all other accounts billed to the same entity with lesser annual usage located on the same or contiguous properties are also eligible to opt out of the DSM/EE rider and the DSM/EE EMF rider.

39. Pursuant to the Commission's Orders in Docket No. E-7, Sub 938, eligible non-residential customers may opt out of either or both of the DSM and EE categories of programs for one or more vintage years, as well as opt back into either or both the categories for a later vintage year. If a customer opts back into the DSM category, it cannot opt out again for three years; however, a customer has the freedom to opt in or out of the EE category for each vintage year. Additionally, if a customer opts out of paying the Rider for a vintage year after one



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or more in which the customer was "opted in"; the Company can charge the customer subsequent DSM/EE and DSM/EE EMF Riders only for those vintage years in which the customer actually participated in a DSM/EE program.

40. Eligible customers may opt out of the Company's EE or DSM programs each calendar year during the annual two-month enrollment period between November 1 and December 31 immediately prior to a new DSM/EE rider becoming effective on January 1. Eligible new customers have sixty days after beginning service to opt out.

41. In addition to the two month opt out period between November 1 and December 31 prior to the new DSM/EE rider becoming effective, during the first week of March (5 business days), customers who have previously opted out may elect to opt in and participate in EE and/or DSM programs during the remainder of the vintage year. Any customer choosing to opt in during the March window would be back-billed for the rider amount that they would have paid had the chosen to participate during the November/December enrollment period.

**General Structure of Riders**

42. The rate period for each proposed DSM/EE Rider will be the next upcoming calendar year at the time of the filing of DEC's annual DSM/EE rider application. The test period used in the development of the DSM/EE EMF Rider will be the most recently concluded calendar year at the time of filing of the application.



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Exhibit 2

43. For purposes of measuring the cost-effectiveness of Programs and for calculation of the PPI, a Vintage Year will be equivalent to a calendar year.

44. The annual filing date of DEC's DSM/EE rider application, supporting testimony, and Exhibits will be no later than March XX of each calendar year.

45. The hearing to consider the proposed DSM/EE and DSM/EE EMF riders proposed by DEC will be held not less than 98 days after the filing date of the Company's application, supporting testimony, and Exhibits.

46. All DSM/EE and DSM/EE EMF riders shall be calculated and charged to customers based on the revenue requirements for each separate vintage year. Separate DSM/EE and DSM/EE EMF riders shall be calculated for the Residential customer class and those rate schedules within the Non-Residential customer class that have DEC DSM/EE program options in which they can participate. One integrated (prospective) DSM/EE rider and one integrated DSM/EE EMF rider shall be calculated for the Residential class, to be effective each rate year. The integrated Residential DSM/EE EMF rider shall include all true-ups for each vintage year appropriately considered in each proceeding. Pursuant to the Commission's Orders in Docket No. E-7, Sub 938, separate DSM and EE billing factors shall be calculated for the Non-Residential class. Additionally, the Non-Residential DSM and EE EMF billing factors shall be determined separately for each vintage year appropriately considered in each proceeding, so that the factors can be appropriately charged to Non-Residential customers based on their opt-in/out status and participation for each vintage year.

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47. For purposes of normalizing or forecasting kWh sales for its annual DSM/EE and DSM/EE EMF rider filing, DEC shall calculate customer growth, weather normalization, and other applicable adjustments on the basis of the test period and/or rate period for each annual filing, as applicable.

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**Allocation Methodologies**

48. Unless the Commission determines otherwise in a G.S. 62-133.9 DSM/EE rider (or other) proceeding, for purposes of cost recovery through the DSM/EE and DSM/EE EMF riders, system-level costs shall be allocated to the North Carolina retail jurisdiction by use of the North Carolina and South Carolina allocation determinants in the following manner:

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(a) The Program Costs of an approved DSM or EE Program will be allocated to the North Carolina and South Carolina retail jurisdictions and will only be recovered from those customer classes to which the Program is targeted.

(b) No Program Costs of any approved DSM or EE Program will be allocated to the wholesale jurisdiction.

(c) For EE Programs, the costs of each Program will be allocated based on the annual energy requirements of North Carolina and South Carolina retail customers (at the generator), as reflected in the annual cost of service studies.

(d) For DSM Programs, the aggregated costs of DSM Programs will be allocated based on the annual summer coincident peak demand of North Carolina and South Carolina retail customers, as reflected in the annual cost of service studies.

(e) The allocation factors and inputs used to allocate the estimated rate period costs of DSM and EE Programs shall be those drawn from the most recently filed cost of service study at the time the annual cost recovery filing is made. The allocations of costs shall be trued up at the time that finalized and trued-up costs for a given test period are initially passed through the DSM/EE EMF, using the most recently filed cost of service study at the time the filing is made (but for no later year than the period being trued up). For subsequent true-ups of that period, the cost of service study used will be the same as that used for the initial true-up.

(f) For purposes of recovery through the DSM/EE and DSM/EE EMF riders, the Company's North Carolina retail jurisdictional costs for approved DSM and EE Programs and Measures shall be assigned or allocated to North Carolina retail customer classes by directly assigning the North Carolina retail jurisdictional costs to the customer group to which the Program is offered. For EE programs offered to Residential or Non-Residential customers, the North Carolina retail jurisdictional costs will be directly assigned to the customer group to which the program is offered. For DSM programs, the aggregated North Carolina retail jurisdictional cost of those programs will be allocated to the Residential and Non-Residential classes based on the contribution of each class to the North Carolina retail jurisdictional peak demand used to make the jurisdictional allocation. The process of estimating and truing up the class assignments and allocations will be the same as practiced for jurisdictional allocations.

**Cost Recovery**

49. As provided in Rule R8-69 and G.S. 62-133.9(d), but subject to the specific provisions and/or modifications contained in this Mechanism, DEC shall be allowed to recover, through the DSM/EE rider, all reasonable and prudent costs reasonably and appropriately estimated to be incurred in expenses during the current rate period for DSM and EE programs that have been approved by the Commission under Rule R8-68. As permitted by G.S. 62-133.9(d), any of the Stipulating Parties may propose a procedure for the deferral and amortization in future DSM/EE riders of all or a portion of DEC's reasonable and prudent costs to the extent those costs are intended to produce future benefits.

50. The DSM/EE EMF rider shall reflect the difference between the reasonable and prudent Program Costs incurred or amortized during the applicable test period (vintage year) and the revenues actually realized during such test period under the DSM/EE rider then in effect.

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51. The cost and expense information filed by DEC pursuant to Commission Rules R8-68(c) and R8-69(f) shall be categorized by Measurement Unit or Program, as applicable, and period, consistent with the presentation included in the Company's application.

52. In accordance with Commission Rule R8-69(b)(6), DEC may implement deferral accounting for over- and underrecoveries of costs that are eligible for recovery through the annual DSM/EE rider. The balance in the deferral account(s), net of deferred income taxes, may accrue a return at the net-of-tax rate of return approved in DEC's then most recent general rate case. The methodology used for the calculation of interest shall be the same as that typically utilized for the Company's Existing DSM Program rider proceeding (taking into account any extensions of the EMF measurement period pursuant to Commission Rule R8-69(b)(2)). Pursuant to Commission Rule R8-69(c)(3), the Company is not allowed to accrue a return on NLR or the PPI.

**Net Lost Revenues**

53. When authorized pursuant to Rule R8-69(c), and unless the Commission determines otherwise, DEC shall be permitted to recover, through the DSM/EE and DSM/EE EMF riders, NLR associated with the implementation of approved DSM or EE Measurement Units or Programs, subject to the restrictions set out below.

54. The North Carolina retail kWh sales reductions that result from an approved Measurement Unit installed in a given vintage year shall be eligible for



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(a) For EE programs, the costs of each program will be allocated based on the annual energy requirements of North Carolina and South Carolina retail customers (grossed up for line losses), as reflected in the annual cost of service studies.¶
(b) For DSM programs, the aggregated costs of DSM programs will be allocated based on the annual summer coincident peak demand of North Carolina and South Carolina retail customers, as reflected in the annual cost of service studies.¶
49. The allocation factors and inputs used to allocate the estimated rate period costs of DSM and EE programs shall be those drawn from the most recently filed cost of service study at the time the annual cost recovery filing is made. The allocations of costs shall be trued up at the time that finalized and trued-up costs for a given test period are initially passed through the DSM/EE EMF, using the most recently filed cost of service study at the time the filing is made (but for no later year than the vintage year being trued up). For subsequent true-ups of that vintage year, the cost of service study used will be the same as that used for the initial true-up.¶
50. For purposes of recovery through the DSM/EE and DSM/EE EMF riders, the Company's North Carolina retail jurisdictional costs for approved DSM and EE programs and measures shall be assigned or allocated to North Carolina retail customer classes as follows. For EE programs offered to Residential or Non-Residential customers, the North Carolina retail jurisdictional costs will be directly assigned to the customer group to which the program is offered. For DSM programs, the aggregated North Carolina retail jurisdictional cost of those programs will be allocated to the Residential a ...
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use in calculating NLR eligible for recovery only for the first 36 months after the installation of the Measurement Unit. Thereafter, such kWh sales reductions will not be eligible for calculating recoverable NLR for that or any other vintage year.

55. Programs or measures with the primary purpose of promoting general awareness and education of EE and DSM activities, as well as research and development activities, are ineligible for the recovery of NLR.

56. In order to recover estimated NLR associated with a pilot program or measure, DEC must, in its application for program or measure approval, demonstrate (a) that the program or measure is of a type that is intended to be developed into a full-scale, Commission-approved program or measure, and (b) that it will implement an EM&V plan based on industry-accepted protocols for the program or measure. No pilot program or measure will be eligible for NLR recovery upon true-up unless it (a) is ultimately proven to have been cost-effective, and (b) is developed into a full-scale, commercialized program.

57. Notwithstanding the allowance of 36 months' NLR associated with eligible kWh sales reductions, the kWh sales reductions that result from measurement units installed shall cease being eligible for use in calculating NLR as of the effective date of (a) a Commission-approved alternative recovery mechanism that accounts for the eligible NLR associated with eligible kWh sales reductions, or (b) the implementation of new rates approved by the Commission in a general rate case or comparable proceeding to the extent the rates set in the general rate case or comparable proceeding are set to explicitly or implicitly recover the NLR associated with those kWh sales reductions.

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58. Recoverable NLR shall be calculated in a manner that appropriately reflects the incremental revenue losses suffered by the Company, net of avoided fuel and non-fuel variable O&M expenses.

59. Total NLR as measured for the 36-month period identified in paragraph 52 above shall be reduced by any increases in Net Found Revenues during the same periods. The "decision tree" adopted by Order in Docket No. E-7, Sub 831 on February 8, 2011, should be applied for determining what constitutes Net Found Revenues. DEC shall closely monitor its utility activities to determine if they are causing a customer to increase demand or consumption, and shall identify and track all such activities with the aid of the "decision tree," so that they may be evaluated by intervening parties and the Commission as potential Net Found Revenues. Net Found Revenues shall be calculated in an appropriate and reasonable manner that mirrors the calculation used to determine NLR.

60. Recoverable NLR shall ultimately be based on kWh sales reductions and kW savings verified by the EM&V process and approved by the Commission. Recoverable NLR shall be estimated and trued-up, on a vintage year basis, in the following manner:

(a) As part of the DSM/EE rider approved in each annual cost and incentive recovery proceeding, DEC shall be allowed to recover the appropriate and reasonable level of recoverable NLR associated with each applicable program and vintage year (subject to the limitations set forth in this Mechanism),



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estimated to be experienced during the rate period for which the DSM/EE rider is being set.

(b) NLR related to any given program/measure and vintage year shall be trued-up through the DSM/EE EMF rider in subsequent annual cost and incentive recovery proceedings based on the Commission-approved results of the appropriate EM&V studies related to the program/measure and vintage year, as determined pursuant to the EM&V Agreement.

(c) The true-up shall be calculated based on the difference between projected and actual recoverable NLR for each Program and period under consideration, accounting for any differences derived from the completed and reviewed EM&V studies, including: (1) the projected and actual number of installations per measurement unit; (2) the projected and actual net kWh and kW savings per installation; (3) the projected and actual gross lost revenues per kWh and kW saved; and (4) the projected and actual deductions from gross lost revenues per kWh and kW saved.

(d) The reduction in NLR due to Net Found Revenues shall be trued up in a manner consistent with the true-up of NLR.

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(e) The combined total of all vintage year true-ups calculated in a given year's Rule R8-69 proceeding shall be incorporated into the appropriate DSM/EE EMF billing factor.

61. Recoverable NLR shall be directly assigned to the program and vintage year with which they are associated.

**Portfolio Performance Incentive (PPI)**

62. When authorized pursuant to Rule R8-69(c), DEC shall be allowed to collect a PPI for its DSM/EE portfolio for each vintage year, separable into Residential, Non-Residential DSM, and Non-Residential EE categories. The PPI shall be subject to the restrictions set out below.

63. Programs, Measures, and activities undertaken by DEC with the primary purpose of promoting general awareness of and education about EE and DSM activities, as well as research and development activities that are not directly associated with a Commission approved EE or DSM Program, are ineligible to be included in the portfolio for purposes of the PPI calculation.

64. Unless (a) the Commission approves DEC's specific request that a pilot program or measure be eligible for PPI inclusion when DEC seeks approval of that program or measure, and (b) the pilot is ultimately commercialized, pilot programs or measures are ineligible for and will not be factored into the calculation of the PPI.



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65. Low-Income programs approved with expected UCT results less than 1.00 and other non-cost-effective programs with similar societal benefits as approved by the Commission shall not be included in the portfolio for purposes of the PPI calculation.

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66. The PPI shall be based on the net dollar savings of DEC's DSM/EE portfolio, as calculated using the UCT, on a total system basis. The North Carolina retail jurisdictional and class portions of the system-basis net dollar savings shall be determined in the same manner as utilized to determine the North Carolina retail jurisdictional and class portions of recoverable system costs. The PPI for each vintage year shall be incorporated into DEC's DSM/EE or DSM/EE EMF billing factors, as appropriate.

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67. In its annual filing pursuant to Rule R8-69(f), DEC shall file an exhibit that indicates, for each program for which it seeks PPI inclusion, the annual projected and actual utility costs, participant costs, number of Measurement Units installed, per kW and kWh impacts for each Measurement Unit, and per kW and kWh avoided costs for each Measurement Unit, consistent with the UCT, related to the applicable vintage year installations that it requests the Commission to approve. Upon its review, the Commission will make findings based on DEC's annual filing for each Program or Measure that is included in an estimated or trued-up PPI calculation for any given vintage year.

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68. Unless the Commission determines otherwise in an annual G.S. 62-133.9 DSM/EE rider proceeding, the amount of the pre-income-tax PPI initially to be recovered for the entire DSM/EE portfolio for a vintage year, excluding

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Exhibit 2

Programs not eligible for a PPI, shall be equal to 10.00% multiplied by the present value of the estimated net dollar savings associated with the DSM/EE portfolio installed in that vintage year, calculated by Program using the UCT (and excluding Low Income Programs and other specified societal programs). The present value of the estimated net dollar savings shall be the difference between the present value of the annual lifetime avoided cost savings for measurement units projected to be installed in that vintage year and the present value of the annual lifetime program costs for those measurement units. The annual lifetime avoided cost savings for measurement units installed in the applicable vintage year shall be calculated by multiplying the number of each specific type of measurement unit projected to be installed in that vintage year by the most current estimates of each lifetime year's per installation kW and kWh savings and by the most current estimates of each lifetime year's per kW and kWh avoided costs. In calculating the forecasted initial PPI it will be assumed that projections will be achieved.

69. At the outset of the application of this Mechanism, the entire PPI related to a vintage year shall be recoverable in the rate period covering that vintage year (subject to true-up). However, any of the Stipulating Parties may propose a procedure to convert a vintage year PPI into a stream of levelized annual payments not to exceed ten years, accounting for and incorporating DEC's overall weighted average net-of-tax rate of return approved in DEC's most recent general rate case as the appropriate discount rate.

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68. For the PPI for Vintage Year 2014, the per kW avoided capacity costs used to calculate avoided cost savings shall be those reflected in the filing by Duke Energy CarolinasDEC in Docket No. E-100, Sub 136. The per kWh avoided energy costs shall be those reflected in or underlying the most recently filed integrated resource plan (IRP). If both the per kW avoided capacity costs and per kWh avoided energy costs approved by the Commission in Sub 136 and the IRP proceeding are within 2% of the costs filed by the Company, no change from the costs used will be necessary. If one or the other changes by more than 2%, both costs will be changed to the approved amounts.

70. For the PPI for Vintage Years 2019 and afterwards, the program-specific per kW avoided capacity benefits and per kWh avoided energy benefits used for the initial estimate of the PPI and any PPI true-up will be derived from the underlying resource plan, production cost model, and cost inputs that generated the avoided capacity and avoided energy credits reflected in the most recent Commission-approved Biennial Determination of Avoided Cost Rates for Electric Utility Purchases from Qualifying Facilities as of December 31 of the year immediately preceding the date of the annual DSM/EE rider filing. However, for the calculation of the underlying avoided energy credits to be used to derive the program-specific avoided energy benefits, the calculation will be based on the projected EE portfolio hourly shape, rather than the assumed 24x7 100 MW reduction typically used to represent a qualifying facility.

71. Unless the Stipulating Parties agree otherwise, DEC shall not be allowed to update its avoided capacity costs and avoided energy costs after filing its annual cost and incentive recovery application for purposes of determining the DSM/EE and DSM/EE EMF riders in that proceeding.

72. DEC and the Public Staff will periodically review study the issue of the appropriate avoided T&D costs to be used in the Company's calculations of cost-effectiveness and achieved net dollar savings, and, if appropriate, recommend in the Company's annual DSM/EE rider proceeding adjustments to the avoided T&D cost rates.

73. When DEC files for its annual cost recovery under Rule R8-69, it shall comply with the filing requirements of Rule R8-69(f)(1)(iii), reporting all



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measurement and verification data, even if that data is not final, to assist the Commission and Public Staff in their review and monitoring of the impacts of the DSM and EE measures.

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74. DEC bears the burden of proving all dollar savings and costs included in calculating the PPI. As provided in Rule R8-68(c)(3)(iii), DEC shall be responsible for the EM&V of energy and peak demand savings consistent with its EM&V plan.

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75. The PPI for each vintage year shall ultimately be based on net dollar savings as verified by the EM&V process and approved by the Commission. The PPI for each vintage year shall be trued-up as follows:

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(a) As part of the DSM/EE rider approved in each annual cost and incentive recovery proceeding, DEC shall be allowed to recover an appropriately and reasonably estimated PPI (subject to the limitations set forth in this Mechanism) associated with the vintage year covered by the rate period in which the DSM/EE rider is to be in effect.

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(b) The PPI related to any given vintage year shall be trued-up through the DSM/EE EMF rider in subsequent annual cost and incentive recovery proceedings based on the Commission-approved results of the appropriate EM&V studies related to the program/measure and vintage year, as determined pursuant to the EM&V Agreement. The true-up shall be based on verified savings and shall be applied to prospective and past time periods in accordance with the Evaluation, Measurement, and Verification section of this Mechanism.

(c) The PPI amount ultimately to be recovered for a given vintage year shall be based on the present value of the actual net dollar savings derived from all measurement units installed in that vintage year, as associated with each DSM/EE program offered during that year (excluding Low Income Programs and other specified societal programs), and calculated by DSM/EE program using the UCT. The present value of the actual net dollar savings shall be the difference between the present value of the annual lifetime avoided cost savings for measurement units installed in that vintage year and the present value of the annual lifetime program costs for those measurement units. The annual lifetime avoided cost savings for measurement units installed in the applicable vintage year shall be calculated by multiplying the number of each specific type of measurement unit installed in that vintage year by each lifetime year's per installation kW and kWh savings (as verified by the appropriate EM&V study pursuant to the EM&V agreement) and by each lifetime year's per kW and kWh avoided costs as determined when calculating the initially estimated PPI for the vintage year. The Stipulating Parties agree to make all reasonable efforts to ensure that all vintages are fully trued-up within 24 months of the vintage program year.

76. The combined total of all vintage year true-ups of the PPI calculated in a given year's Rule R8-69 proceeding shall be incorporated into the appropriate DSM/EE EMF billing factor.

77. The PPI for each vintage year shall be allocated to DSM and EE programs in proportion to the present value net dollar savings of each program for the vintage year, as calculated pursuant to the method described herein.

**Additional Incentive**

78. As further incentive to motivate the Company to aggressively pursue offering available cost-effective EE and DSM Programs, if the Company achieves incremental energy savings of 1% of the prior year's DEC system retail electricity sales in any year during the five-year 2019-2023 period, the Company will receive a bonus incentive of $400,000 for that year. Verification of this achievement will be obtained through the EM&V process discussed elsewhere in this Mechanism.



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Exhibit 2

**Financial Reporting Requirements**

79. In its quarterly ES-1 Reports to the Commission, DEC shall calculate and present its primary North Carolina retail jurisdictional earnings by including all actual EE and DSM program revenues, including PPI and NLR incentives, and costs. Additionally, the Company shall prepare and present (a) supplementary schedules setting forth its North Carolina retail jurisdictional earnings excluding the effects of the PPI; (b) supplementary schedules setting forth its North Carolina retail jurisdictional earnings excluding the effects of the Company's EE and DSM programs; and (c) supplementary schedules setting forth earnings, including overall rates of return, returns on common equity, and margins over program costs actually realized from its EE and DSM programs in total and stated separately by program class (program classes are hereby defined to be (i) EE programs and (ii) DSM programs). Detailed workpapers shall be provided for each scenario described above. Such workpapers, at a minimum, shall clearly show actual revenues, expenses, taxes, operating income, rate base/investment, including components, and the applicable capitalization ratios and cost rates, including overall rate of return and return on common equity. Net lost revenues realized (estimated, if not known) for each reporting period shall be clearly disclosed as supplemental information.

**Review of Mechanism**

80. The terms and conditions of this Mechanism shall be reviewed by the Commission every four years unless otherwise ordered by the Commission. However, a Stipulating Party may request the Commission to initiate such a



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review at any time within the four year period. The Company and other parties shall submit any proposed changes to the Commission for approval at the time of the filing of the Company's annual DSM/EE rider filing. During the time of review, the Mechanism shall remain in effect until further order of the Commission revising the terms of the Mechanism or taking such other action as the Commission may deem appropriate.

**Term**

81. This Mechanism shall continue until terminated pursuant to Order of the Commission.

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Exhibit 2

## Attachment A

The table below groups program changes into three categories: (1) those that should require regulatory approval by the North Carolina Utilities Commission (NCUC) prior to implementation, (2) those that should not require Commission approval but should require advanced notification to be filed with the Commission prior to making the program change, and (3) those that simply require inclusion in a quarterly report that will notify the Commission of all program changes made without Commission approval or advance notice. The Company will continue to share potential program changes with the Public Staff and the Collaborative.

| **Type of Change** | **Description of Change** | **Prior NCUC Approval**[1] | **Advance Notice**[2] |
|---|---|---|---|
| Tariff Revision | Any change to a program that is not explicitly allowed by the existing tariff language. Tariffs shall include information pertaining to the availability of, eligibility for, and applicability of the program, identification of specific measures offered, general description of each measure, maximum incentives offered ("up to $ __ per customer, measure unit, etc."), and method(s) of measure delivery. | Yes | No |
| Addition of and Removal from Programs of Measures Actually Offered | The addition of any tariff-authorized measure as an actual offering of a program, and/or the alteration, removal, or replacement of any tariff-authorized measure actually offered as part of a tariffed program, including any such action involving equipment or participant options/choices: | | |
| | 1. That is not consistent with the language of the tariff. | Yes | No |

[1] Petitions for approval shall be filed no later than 30 days prior to proposed effective date, pursuant to Commission Rule R8-68.

[2] Advance notice shall be filed no later than 45 days prior to proposed effective date.

Exhibit 2

| Type of Change | Description of Change | Prior NCUC Approval[1] | Advance Notice[2] |
|---|---|---|---|
| | 2. That results in the erosion of the forward-looking program-level Total Resource Cost (TRC) test ratio, causing it to fall below 1.00.[3] | Yes | No |
| | 3. That results in a net 20% or more reduction in the forward-looking annual energy kilowatt-hour (kWh) or demand kilowatt (kW) savings associated with the program, as calculated for the next full program year affected by the change. | No | Yes |
| | 4. That results in the forward-looking present value of program costs increasing by more than 20%, or the forward-looking program-level TRC test ratio decreasing by more than 20%.[3] | No | Yes |
| | 5. That results in the projected forward-looking net present value avoided costs savings from the program increasing by more than 20%, or the forward-looking program-level TRC test ratio increasing by more than 20%.[3] | No | Yes |
| | 6. That does not fall into one of the five categories above. | No | No[4] |
| Expansion or Reduction of Population to Which a Measure Will be | Expansion of the offering/availability of a measure to other customer groups as authorized or allowed by the tariff but not previously included, or elimination of the availability of a measure to customer groups previously included: | | |
| | 1. That is not consistent with the language of the tariff. | Yes | No |

[3] If inadequate market information exists to develop a reasonable estimate of the TRC test ratio, the Utility Cost Test ratio may be used instead, with the TRC ratio being provided as soon as a reasonable estimate thereof can be determined.

[4] Program changes falling into this category shall be set forth in the quarterly Program Modification Report, as noted below.

Exhibit 2

| **Type of Change** | **Description of Change** | **Prior NCUC Approval**[1] | **Advance Notice**[2] |
|---|---|---|---|
| Offered | 2. That results in the erosion of the forward-looking program-level TRC test ratio, causing it to fall below 1.00.[3] | Yes | No |
| | 3. That results in the forward-looking present value of program costs increasing by more than 20%, or the forward-looking program-level TRC test ratio decreasing by more than 20%.[3] | No | Yes |
| | 4. That results in the projected forward-looking net present value avoided costs savings from the program increasing by more than 20%, or the forward-looking program-level TRC test ratio increasing by more than 20%.[3] | No | Yes |
| | 5. That does not fall into one of the four categories above. | No | No[4] |
| Changes to Measure Unit Savings or Baseline Standards. | Changes to the unit savings (kWh or kW saved per measurement unit) or efficiency standards for a measure, resulting from technological, regulatory, or other actions or determinations, that alter the incremental and/or baseline energy/load characteristics related to the measure and used to calculate incremental energy/demand savings: | | |
| | 1. That result in the erosion of the forward-looking program-level TRC test ratio, causing it to fall below 1.00.[3] | Yes | No |
| | 2. That result in the forward-looking present value of program savings decreasing by more than 20%, or the forward-looking program-level TRC test ratio decreasing by more than 20%.[3] | No | Yes |

Exhibit 2

| Type of Change | Description of Change | Prior NCUC Approval[1] | Advance Notice[2] |
|---|---|---|---|
| | 3. That result in the projected forward-looking net present value avoided costs savings from the program increasing by more than 20%, or the forward-looking program-level TRC test ratio increasing by more than 20%.[3] | No | Yes |
| | 4. That do not fall into one of the three categories above.<br><br>Any such changes will be reflected in the next applicable evaluation, measurement, and verification (EM&V) report, provided the change occurred prior to the sample period used for the subsequent EM&V. | No | No[4] |
| Changes in Participant Incentives | Participant incentives associated with any actually offered measures, shall not exceed the maximum incentive established in the tariff for the measure, on a per customer, kWh, or kW basis. Changes in actually offered participant incentives within the maximum limits set by the tariff: | | |
| | 1. That are not consistent with the language of the tariff. | Yes | No |
| | 2. That result in the erosion of the forward-looking program-level TRC test ratio, causing it to fall below 1.00.[3] | Yes | No |
| | 3. That result in the forward-looking present value of program costs increasing by more than 20%, or the forward-looking program-level TRC test ratio of the program decreasing by more than 20%.[3] | No | Yes |
| | 4. That result in the projected forward-looking net present value avoided costs savings from the program increasing by more than 20%, or the forward-looking program-level TRC test ratio increasing by more than 20%.[3] | No | Yes |

Exhibit 2

| Type of Change | Description of Change | Prior NCUC Approval[1] | Advance Notice[2] |
|---|---|---|---|
| | 5. That do not fall into one of the four categories above. | No | No[4] |
| Unit of Measure | Changes to the internal tracking of a measure component from the tracking initially established for the measure component. | No | No[4] |
| Changes in Estimates of Participant Cost | Changes to the estimated participant costs, unless provided for in the Program tariff or resulting from changes identified elsewhere in this table: | | |
| | 1. That result in the erosion of the forward-looking program-level TRC test ratio, causing it to fall below 1.00.[3] | Yes | No |
| | 2. That result in the forward-looking program-level TRC test ratio decreasing by more than 20%[3]. | No | Yes |
| | 3. That result in the forward-looking program-level TRC test ratio increasing by more than 20%.[3] | No | Yes |
| | 4. That do not fall into one of the three categories above. | No | No[4] |
| Other Program Changes | Other program changes: | | |
| | 1. That are not consistent with the language of the tariff. | Yes | No |
| | 2. That result in the erosion of the forward-looking program-level TRC test ratio, causing it to fall below 1.00.[3] | Yes | No |
| | 3. That result in the forward-looking present value of program costs increasing by more than 20%, or the forward-looking program-level TRC test ratio decreasing by more than 20%.[3] | No | Yes |

Exhibit 2

| Type of Change | Description of Change | Prior NCUC Approval[1] | Advance Notice[2] |
|---|---|---|---|
| | 4. That result in the projected forward-looking net present value avoided costs savings from the program increasing by more than 20%, or the forward-looking program-level TRC test ratio increasing by more than 20%.[3] | No | Yes |
| | 5. That do not fall into one of the four categories above. | No | No[4] |

All program changes which require advance notification shall be filed no later than 45 days prior to the proposed effective date of the change using the Advance Notification Program Modifications Reporting Template. Should any party have concern about the proposed modification, it shall file comments with the Commission within 25 days of the Company's filing of the Advanced Notification Program Modifications Reporting Template. A sample of the Advance Notification Program Modifications Reporting Template is attached. On a quarterly basis, the Company will file with the Commission a notification of program changes that have been made without Commission approval or advance notice, using the Program Modifications Reporting Template attached below.

In addition to the measurements required with respect to the above-described program changes, forward-looking TRC and other cost effectiveness test results shall be provided for review in each annual R8-69 cost recovery proceeding. In the case that a program has experienced a number of separate changes or modifications that have effectively changed the baseline for a program by 15%, a party or intervenor may request that the baseline TRC and other test results be reset for purposes of applying these Flexibility Guidelines. Whenever a change in a program goes into effect as a result of Commission approval or is allowed to go into effect after advance notice, the baseline TRC and other test results will be reset for purposes of applying these Flexibility Guidelines.

With regard to all program changes, neither Commission approval, the filing of advance notice, nor the inclusion of the changes in the quarterly Program Modifications Report precludes any party from taking issue with or the Commission from disallowing or amending a program change in a DSM/EE cost recovery proceeding, DSM/EE program approval proceeding, general rate case proceeding, or a similar proceeding.

Exhibit 2

For purposes of this discussion:

1. "Program" is defined as a group of DSM/EE measures that are appropriately bundled into a group for purposes of program delivery, marketing, and maximizing energy savings. Tariffs are developed for programs and include the availability and applicability of the program, and the customer eligibility requirements. Cost effectiveness is determined at this level.

2. "Measure" is generally defined as a specific and individual activity or item of equipment that provides energy or demand savings. Examples include refrigerator replacement, HVAC heat pump, central air, ground source, lighting fixtures, LEDs, CFLs, etc. One measure may constitute the measurement unit by which the utility tracks costs and savings, or individual measures may be grouped into a single measurement unit. In each approved program tariff, the maximum incentive for each included measure and/or measurement unit will be set forth.

On a quarterly basis, the Company will file a notification, using the Program Modifications Reporting Template below, with the Commission of all program changes that have been made without Commission approval or advance notice.

Exhibit 2

The Program Modifications Reporting Template will include the following information:

| | **Description** |
|---|---|
| Program Name | The name of the program with the recommended or implemented program change. |
| Description of Change | Details of the change made to the program. For example, the incentive per participant was increased to drive program participation. Although the cost effectiveness per participant declined, the overall program cost effectiveness is expected to increase as a result of more program participants. |
| Type of Change | Identifies the type of program change made. Refer to the table entitled Type of Programs in this document on page one for a list of types of program changes and description of each change. |
| Date of Change | The date the change was implemented. |
| Delta of Change in Cost Effectiveness Test Results | Illustrates the impact that the program change has on the cost effectiveness tests. It reflects the changes in energy savings, program costs and projected participation versus what was reflected in the test results that were originally filed. |
| New Cost Effectiveness Test Results | The new cost effectiveness test scores based on implementation of the proposed program change. |
| Percent of Change in Program Cost | The percentage of change in program costs reflecting the proposed program change(s). |
| Absolute Change in Program Costs | The change in program costs reflecting the proposed program change(s). |
| Percent of Change in Projected Avoided Costs | The percentage of change in projected avoided costs reflecting the proposed program change(s). |
| Absolute Change in Projected | The change in projected avoided costs reflecting the proposed program change(s). |

Exhibit 2

| | |
|---|---|
| Avoided Costs | |
| Percent of Change in Program Impacts | The percentage of change in projected annual energy and demand savings reflecting the proposed program change(s), as calculated for the next full program year affected by the change. |
| Absolute Change in Program Impacts | The change in projected annual energy and demand savings reflecting the proposed program change(s), as calculated for the next full program year affected by the change. |

Advanced Notification Program Modifications Reporting Template

The Advanced Notification Program Modifications Reporting Template will include the following information as agreed upon by the Parties.

| | **Description** |
|---|---|
| Program Name | The name of the program with the recommended or implemented program change. |
| Description of Proposed Change | Details of the proposed program change to be made. |
| Type of Change | Identifies the type of program change made. |
| Proposed Effective Date of Change | The proposed date to implement the change |
| Delta of Change in Cost Effectiveness Test Results | Illustrates the impact that the program change has on the cost effectiveness tests. It reflects the changes in energy savings, program costs and projected participation versus what was reflected in the test results that were originally filed. |
| New Cost Effectiveness Test Results | The revised cost effectiveness test scores reflecting the proposed program change(s). |
| Percent of Change in Program Cost | The percentage of change in program costs reflecting the proposed program change(s). |
| Absolute Change in Program Costs | The change in program costs reflecting the proposed program change(s). |

Exhibit 2

| | |
|---|---|
| Percent of Change in Projected Avoided Costs | The percentage of change in projected avoided costs reflecting the proposed program change(s). |
| Absolute Change in Projected Avoided Costs | The change in projected avoided costs reflecting the proposed program change(s). |
| Percent of Change in Program Impacts | The percentage of change in projected annual energy and demand savings reflecting the proposed program change(s), as calculated for the next full program year affected by the change. |
| Absolute Change in Program Impacts | The change in projected annual energy and demand savings reflecting the proposed program change(s), as calculated for the next full program year affected by the change. |

| Program Modifications Reporting Template | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Program Name | Original Offer | Description of Change | Type of Change | Date of Change | Delta of Change | | | | New Cost Effectiveness Test Results | | | |
| | | | | | UCT | TRC | RIM | Participant | UCT | TRC | RIM | Participant |
| | | | | | | | | | | | | |

| Advanced Notification Program Modifications Reporting Template | | | | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Program Name | Description of Proposed Change | Type of Change | Proposed Effective Date of Change | Delta of Change | | | | New Cost Effectives Test Scores | | | | Percent of Change in Program Cost[1] | Absolute Change in Program Cost[1] | Percent of Change in Projected Avoided Cost[1] | Absolute Change in Avoided Cost[1] | Percent of Change in Projected Program Impacts (kWh/kW) | Absolute Change in Program Impacts (kWh/kW) |
| | | | | UCT | TRC | RIM | Parti-cipant | UCT | TRC | RIM | Partici-pant | | | | | | |
| | | | | | | | | | | | | | | | | | |
| | | | | | | | | | | | | | | | | | |

Rationale for Program Change:

[1] Information provided will be marked as confidential.

## Attachment B

Initial EM&V results shall be applied retrospectively to program impacts that were based upon estimated impact assumptions derived from industry standards (rather than EM&V results for the program or a similar program offered elsewhere in the Carolinas). For all EE programs without prior EM&V results used as the basis for approval, EM&V results shall be applied retrospectively to the beginning of the program offering. For the purposes of the vintage true-ups, these initial EM&V results will be considered actual results for a program until the next EM&V results are received. The new EM&V results will then be considered actual results going forward and applied prospectively for the purposes of truing up vintages from the first day of the month immediately following the month in which the study participation sample for the EM&V was completed. This EM&V will then continue to apply and be considered actual results until it is superseded by new EM&V results, if any.

For all new programs and pilots, the Company will follow a consistent methodology, meaning that initial estimates of impacts will be used until Duke Energy Progress has valid EM&V results, which will then be applied back retrospectively to the beginning of the offering and will be considered actual results until a second EM&V is performed.

## Attachment C

A "decision tree" will be used to evaluate whether activities that may directly or indirectly result in increases in customer demand or energy consumption should be designated by the Company as producing "found revenues" and either filed with the Commission for a determination of their status or reported to the Commission for consideration at its discretion. The Company will create a list of all Duke Energy Progress activities that may produce found revenues by directly or indirectly resulting in an increase in customer demand or energy consumption within the Company's service territory, followed by the elimination, or "filtering out," of activities that meet certain criteria. More specifically, an activity will be eliminated from the list if it meets one or more of the following criteria (the tree itself should be referred to for the precise language of each filter):

(1) The increase in customer demand or energy consumption would have occurred regardless of the activity.

(2) The increase is the result of a new customer account's participation in certain Duke Energy Progress economic development activities that have been found by the Commission not to result in found revenues.

(3) The activity is conducted at the unsolicited request of a governmental unit for the purposes of growing the economy, creating jobs, or enhancing sustainability in the region.

If an activity is not eliminated for consideration by one of these filters, Duke Energy Progress will then evaluate whether the related increase in customer demand or energy consumption is a direct or proximate result of the activity. If it is determined to be so, the Company will designate the activity as one producing found revenues or submit it to the Commission for determination; if not, the Company may presume that the activity does not produce found revenues but will report it to the Commission as part of its annual DSM/EE cost recovery filing. A visual representation of the "decision tree" process follows on the next page.

Exhibit 2

***"Net lost revenues shall also be net of any increases in revenues resulting from any activity by the electric public utility that increases customer demand or energy consumption, whether or not that activity has been approved pursuant to this Rule R8-68." - Commission Rule R8-68(b)(5)***

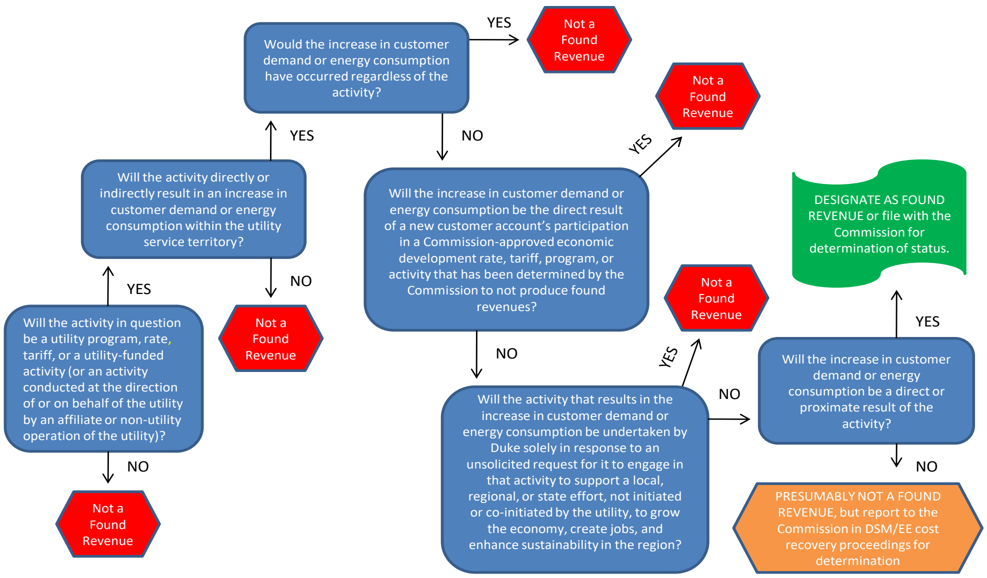

Exhibit 3

**COST RECOVERY AND INCENTIVE MECHANISM FOR DEMAND-SIDE MANAGEMENT AND ENERGY EFFICIENCY PROGRAMS**

*(Docket No. E-2, Sub 931, as Modified by the Commission, to be Effective January 1, 2016, and as revised by the Commission in Docket No. E-2, Sub 1145)*

**Definitions**

1. *Common Costs* are administrative and general, or other, costs that are not attributable or directly assignable to specific demand-side management (DSM) or (EE) Programs but are necessary to design, implement, and operate the Programs collectively.

2. *Costs* include program costs (including those of pilot programs approved by the Commission for inclusion in the Mechanism), common costs, and, subject to Rule R8-69(b), any other costs approved by the Commission for inclusion in the Mechanism. *Costs* include only those expenditures appropriately allocable to the North Carolina retail jurisdiction.

3. *Incremental Program Costs* are utility-incurred costs directly attributable and expended solely for a specific DSM or EE Program, and include all appropriate capital costs (cost of capital, depreciation expenses, property taxes, and other associated costs found reasonable by the Commission), implementation costs, incentive payments to Program participants, other operations and maintenance costs, EM&V costs, and administrative and general costs incurred specifically for the Program, net of any grants, tax

credits, or other reductions in cost received by the utility from outside parties and specifically related to the Program.

4. *Low-Income Programs or Low-Income Measures* are DSM or EE Programs or DSM or EE Measures approved by the Commission to be provided specifically to low-income customers.

5. *Measure* means, with respect to EE, an "energy efficiency measure," as defined in G.S. 62-133.8(a)(4), that is new within the meaning of G.S. 62-133.9(a); and, with respect to DSM, an activity, initiative, or Program change, that is new under G.S. 62-133.9(a) and satisfies the definition of "demand-side management" as set forth in G.S. 62-133.8(a)(2).

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**Deleted:** is undertaken by an electric power supplier or its customers to reduce electricity use during peak demand periods. DSM includes, but is not limited to, load management, electric system equipment and operating controls, direct load control, and interruptible load.

6. *Measurement Unit* means the basic unit that is used to measure and track the (a) incurred costs; (b) Net Lost Revenues; and (c) kilowatt (kW), kilowatt-hour (kWh), and dollar savings, net of NTG effects for DSM or EE Measures installed in each Vintage Year. A Measurement Unit may consist of an individual Measure or bundle of Measures. Measurement units shall be requested by Duke Energy Progress (DEP) and established by the Commission for each Program in the Program approval process, and shall be subject to modification by the Commission when appropriate. If Measurement Units have not been established for a particular Program, the

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Measurement Units for that Program shall be the individual Measures, unless the Commission determines otherwise.

7. *Measurement Unit's Life* means the estimated number of years that equipment or customer treatment associated with a Measurement Unit will operate if properly maintained, or activities (services or customer behavior) associated with the Measurement Unit will continue to be cost-effective, and produce energy (kWh) or peak demand (kW) savings, unless the Commission determines otherwise.

8. *Net Found Revenues* means any increases in revenues resulting from any activity by DEP's public utility operations that causes a customer to increase demand or energy consumption, whether or not that activity has been approved pursuant to Commission Rule R8-68. The dollar value of Net Found Revenues will be determined in a manner consistent with the determination of the dollar value of NLR provided in Paragraph No. 8 below. In determining which activities produce Net Found Revenues, the "Decision Tree" attached to this Mechanism as Attachment C will be applied.

9. *Net Lost Revenues (NLR)* means DEP's revenue losses due to new DSM or EE Measures, net of fuel costs and non-fuel variable operating and maintenance expenses avoided at the time of the

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kilowatt-hour sale(s) lost due to the DSM or EE Measures[1], or in the case of purchased power, in the applicable billing period incurred by DEPpublic utility operations as the result of a new DSM or EE Measure. PPIs shall not be considered in the calculation of NLR or NLR recovery.

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10. *Net-to-gross* (NTG) *factor* means an adjustment factor used to compute the net kW/kWh savings by accounting for behavioral effects, including, but not limited to, free ridership, moral hazard, free drivers, and spillover.

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11. *Portfolio Performance Incentive* (PPI) means a utility incentive payment to DEP as a bonus or reward for adopting and implementing new (as defined in G.S. 62-133.9(a)) EE or DSM Measures and/or Programs. The PPI is based on the sharing of avoided cost savings, net of Program Costs, achieved by those DSM and EE Programs in the aggregate. Such Program Costs will be adjusted as discussed elsewhere in this Mechanism. PPI excludes NLR.

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12. *Program* means one or more new DSM or EE Measures with similar objectives that have been consolidated for purposes of delivery,

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[1] Avoided fuel costs would technically be measured at the marginal cost of fuel avoided at the time of the lost kWh sale. However, because fuel costs themselves are subject to true-up, it is administratively easier and results in the same overall revenue requirement outcome to measure fuel costs associated with NLR at the then-current approved prospective fuel and fuel-related cost factor.

administration, and cost recovery, and that have been adopted on or after January 1, 2007, including subsequent changes and modifications.

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13. *Program Costs* are costs that are directly attributable or reasonably and appropriately allocable to specific DSM or EE Programs or groups of Programs (for purposes of setting the DSM/EE and DSM/EE EMF riders), and include all appropriate and reasonable Incremental Program Costs, and reasonably assigned or allocated administrative and general expenses and other Common Costs, net of any reasonably assigned or allocated grants, tax credits, Program Cost adjustments as discussed elsewhere in this Mechanism, or other reductions in cost received by the utility from outside parties.

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14. *Total Resource Cost* (TRC) *test* means a cost-effectiveness test that measures the net costs of a DSM or EE Program or portfolio as a resource option based on the incremental costs of the Program or portfolio, including both the participants' costs and the utility's costs (excluding incentives paid by the utility to or on behalf of participants). The benefits for the TRC test are the avoided supply costs (i.e., the reduction in generation capacity costs, transmission and distribution capacity costs, and energy costs caused by a load reduction), valued at marginal cost for the periods when there is a load reduction. The avoided supply costs shall be calculated using net Program or portfolio savings (i.e., savings net of reductions in

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energy use (NTG impacts) that would have happened even in the absence of the Program). The costs for the TRC test are the incremental net Program or portfolio costs incurred by the utility and participants, plus the increased supply costs for any periods in which load is increased. All costs of equipment, installation, operation and maintenance (O&M), removal (less salvage value), and administration, no matter who pays for them, are included in this test. However, Common Costs shall not be included in a Program-level TRC test used for program approval purposes, but shall be included in a portfolio-level TRC test. Any grants, tax credits, or other reductions in cost received by the utility or participants from outside parties and specifically related to the Program or portfolio, as applicable, are considered a reduction to costs in this test.

15. *Utility Cost Test* (UCT) means a cost-effectiveness test that measures the net costs of a DSM or EE Program or portfolio as a resource option based on the incremental costs incurred by the utility (including incentive costs paid by the utility to or on behalf of participants) and excluding any net costs incurred by the participants. The benefits for the UCT are the avoided supply costs (i.e., the reduction in generation capacity costs, transmission and distribution capacity costs, and energy costs caused by a load reduction), valued at marginal cost for the periods when there is a load reduction. The avoided supply costs shall be calculated using

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net Program or portfolio savings (i.e., savings net of reductions in energy use (NTG impacts) that would have happened even in the absence of the Program or portfolio). The costs for the UCT are the net Program or portfolio Costs incurred by the utility and the increased supply costs for any period in which load is increased. Utility costs include initial and annual costs, such as the cost of utility equipment, O&M, installation, Program or portfolio administration, incentives paid to or on behalf of participants, and participant dropout and removal of equipment (less salvage value). However, Common Costs shall not be included in a Program-level UCT test used for program approval purposes, but shall be included in a portfolio-level UCT test. Any grants, tax credits, or other reductions in cost received by the utility from outside parties and specifically related to the Program are considered a reduction to costs in this test.

16. *Vintage Year* means an identified 12-month period in which a specific DSM or EE Measure is installed for an individual participant or group of participants.

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**Application for Approval of Programs**

17. In evaluating potential DSM/EE Measures and Programs for selection and implementation, DEP will first perform a qualitative measure screening to ensure Measures are:

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(a) Commercially available and sufficiently mature;

(b) Applicable to the DEP service area demographics and climate; and

(c) Feasible for a utility DSM/EE Program.

18. DEP will then further screen EE and DSM Measures for cost-effectiveness. For purposes of this screening, estimated incremental EM&V costs attributable to the Measures shall be included in the Measures' costs. With the exception of Measures included in a Low-Income Program, or other Program in which PPI incentives are not requested that may potentially be filed with the Commission for approval, an EE or DSM Measure with a TRC test result less than 1.0 will not be considered further, unless the Measure can be bundled into an EE or DSM Program to enhance the overall cost-effectiveness of that Program. Program measures under consideration for bundling, whether for new or existing Programs, must be consistent with and related to the measure technologies and/or delivery channels currently offered in the Program. Consistent with DEP's agreement with Piedmont Natural Gas and Public Service Company of NC, all EE and DSM Measures associated with an end-use that can be served by natural gas must pass the UCT.

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19. With the exception of Low-Income Programs or other programs explicitly identified at the time of the application for their approval, all

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Programs submitted for approval will have a Program-level TRC and UCT test result greater than 1.00. Additionally, for purposes of calculating cost-effectiveness for program approval, the Company shall use projected avoided capacity and energy benefits specifically calculated for the program, as derived from the underlying resource plan, production cost model, and cost inputs that generated the avoided capacity and avoided energy credits reflected in the most recent Commission-approved Biennial Determination of Avoided Cost Rates for Electric Utility Purchases from Qualifying Facilities as of the date of the filing for the new program approval. However, for the calculation of the underlying avoided energy credits to be used to derive the program-specific avoided energy benefits, the calculation will be based on the projected EE portfolio hourly shape, rather than the assumed 24x7 100 MW reduction typically used to represent a qualifying facility. For purposes of determining cost-effectiveness, estimated incremental EM&V costs attributable to each Program shall be included in the Program costs. DEP will comply, however, with Commission Rule R8-60(i)(6)(iii), which requires DEP to include in its biennial Integrated Resource Plan, revised as applicable in its annual report, certain information regarding the Measures and Programs that it evaluated but rejected.

20. If a Program fails the economic screening in Paragraph 18 above, DEP will determine if certain Measures can be removed from the Program to satisfy the criteria established in Paragraph 18.

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21. DEP will provide its Stakeholder Collaborative with information relating to Programs and Measures either currently being considered or planned for future consideration. DEP will also seek suggestions from its Collaborative for additional Programs and Measures for its future consideration.

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22. Nothing in this Mechanism relieves DEP from its obligation to comply with Commission Rule R8-68 when filing for approval of DSM or EE Measures or Programs. As specifically required by Commission Rule R8-68(c)(3)(iii), DEP shall, in its filings for approval of Measures and Programs, describe the industry-accepted methods to be used to collect and analyze data; measure and analyze Program participation; and evaluate, measure, verify, and validate the energy and peak demand savings. In its filings, DEP shall also provide a schedule for reporting the results of this EM&V process to the Commission. The EM&V process description should describe not only the methodologies used to produce the impact estimates utilized, but also any methodologies the Company considered and rejected. Additionally, where known, DEP shall identify the independent third party it plans to use for purposes of EM&V, and include an estimate of all third-party costs in its filing. If

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not known at the time of filing for approval, the information shall be provided at the time of DEP's next annual rider filing.

**Program Management**

23. In each annual DSM/EE cost recovery filing, DEP shall (a) perform prospective cost-effectiveness test evaluations for each of its approved DSM and EE Programs, (b) perform prospective aggregated portfolio-level cost-effectiveness test evaluations for its approved DSM/EE Programs (including any assigned or allocated administrative and general or other common costs), and (c) include these prospective cost-effectiveness test results in its DSM/EE rider application.

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23A. For purposes of calculating prospective cost-effectiveness in each DSM/EE rider proceeding to be used to determine whether a program should remain in the portfolio, the Company shall assess each program by:

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a. Using projected avoided capacity and energy benefits specifically calculated for each program, as derived from the underlying resource plan, production cost model, and cost inputs that generated the avoided capacity and avoided energy credits reflected in the most recent Commission-approved Biennial Determination of Avoided Cost Rates for Electric Utility Purchases from Qualifying Facilities as of December 31 of the year immediately preceding the date of the annual DSM/EE rider filing. However, for the calculation of the underlying avoided energy credits to be used to derive the program-specific avoided energy benefits, the calculation will be based on the projected EE portfolio hourly shape, rather than the assumed 24x7 100 MW reduction typically used to represent a qualifying facility; and,

b. Evaluating each cost-effectiveness test using projections of participation, savings, costs, and benefits for the upcoming vintage year.

23B. The parties acknowledge that prospective cost-effectiveness evaluations are snapshots of the program's performance, and that ongoing cost-effectiveness is impacted by many factors outside the Company's control, including but not limited to market and economic conditions, avoided costs, and government mandates. The parties shall continue to work to maintain the cost-effectiveness of its portfolio and individual programs. However, for any program that initially demonstrates a TRC, determined pursuant to paragraph 22A above of less than 1.00, the Company shall include a discussion in its annual DSM/EE rider proceeding of the actions being taken to maintain or improve cost-effectiveness, or alternatively, its plans to terminate the program.

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23C. For programs that demonstrate a prospective TRC, determined pursuant to paragraph 22A above, of less than 1.00 in a second DSM/EE rider proceeding, the Company shall include a discussion of what actions it has taken to improve cost-effectiveness. Fluctuations of TRC above and below 1.0 should be addressed on a case by case basis.

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23D. For programs that demonstrate a prospective TRC, determined pursuant to paragraph 22A above, of less than 1.00 in a third DSM/EE rider proceeding, the Company shall terminate the program effective at the end of the year following the DSM/EE rider order, unless otherwise ordered by the Commission. However, any party may propose termination of a program prior to a third DSM/EE rider proceeding if earlier information indicates that cost-effectiveness is not likely to reach 1.0 or greater under the TRC test.

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24. DEP will seek to leverage available state and federal funds to operate effective efficiency Programs. Its application for such funds will be transparent with respect to the cost, operation, and profitability of Programs operated with those funds in a manner consistent with its authorized revenue recovery mechanism. Use of such funds helps offset the participant's project costs and is supplemental to DEP's incentives to participants. As such, these funds will not change the impacts or Program- or portfolio-level cost-effectiveness of DEP's Programs as calculated using the UCT.

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Further, the amount of avoided costs recognized by the Company will not be reduced if participants also use state or federal funds to offset any portion of their project costs.

**Program Modifications**

25A. Modifications to Commission approved DSM/EE Programs will be considered as provided for in Attachment A to this Mechanism.

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25B. Modifications filed with the Commission for approval will be evaluated under the same guidelines and parameters used in DEP's most recently filed DSM/EE rider proceeding.

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**Stakeholder Collaborative**

26. DEP will conduct periodic collaborative stakeholder meetings for the purpose of collaborating on new Program ideas, reviewing modifications to existing Programs, ensuring an accurate public understanding of the Programs and funding, reviewing the EM&V process, giving periodic status reports on Program performance, helping to set EM&V priorities, providing recommendations toward DEP's submission of applications to revise or extend Programs and rate structures, and guiding efforts to expand cost-effective Programs for low-income customers.

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27. The Carolinas EE Collaborative is an advisory group made up of interested stakeholders from across North and South Carolina

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representing a wide array of customer groups and interests related to energy efficiency and demand response. The Collaborative should serve as an open forum for the sharing of information and discussion of topics related to energy efficiency including program design and development, program evaluation, regulatory and other market conditions that will impact program performance, specific issues or topics as requested by the North and South Carolina Utilities Commissions in orders regarding DSM and EE matters, and other topics or issues to achieve the most demand and energy savings possible. The collaborative will continue to determine its own rules of operation, including the process for setting the agendas and activities of the group, consistent with these terms. Members agree to participate in the advisory group in good faith consistent with mutually-agreed upon rules of participation. Meetings are open to additional parties who agree to the participation rules.

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28. DEP will provide information related to the development of EE and DSM to stakeholders in a transparent manner. The Company agrees to disclose Program-related data at a level of detail similar to that which it has disclosed in other states or as disclosed by other regulated utilities in the Carolinas. The Company will share all aspects of the development and evaluation of Programs, including the EM&V process.

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29. At its discretion, the Company may require confidentiality agreements with members who wish to review confidential data or any calculations that could be used to determine the data. Disclosure of this data would harm DEP competitively and could result in financial harm to its customers. Participation in the advisory group shall not preclude any party from participating in any Commission proceedings.

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**Distribution System Demand Response (DSDR) Program**

30. The DSDR Program is a new EE Program as defined by G.S. 62-133.8 and G.S. 62-133.9, and is eligible for recovery of reasonable and prudent costs, as well as NLR, subject to the terms and conditions of NLR set forth herein. The DSDR Program is not eligible for recovery of a PPI.

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31. The rate of return on investment used to determine the DSDR Program capital-related costs included in each annual rider will be based on the then-current capital structure, embedded cost of preferred stock, and embedded cost of debt of the Company (net of appropriate income taxes), and the cost of common equity approved in the Company's then most recent general rate case.

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Exhibit 3

**Evaluation, Measurement and Verification**

32. The EM&V of Programs will be conducted using a nationally-recognized protocol to ensure that Programs remain cost-effective. Except for DEP's DSDR Program, EM&V of Programs will be conducted by an independent third-party. EM&V of the DSDR Program will be conducted by DEP. EM&V protocol may be modified with approval of the Commission to reflect the evolution of best practices.

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33. EM&V will be applied in accordance with the provisions of Attachment B to this Mechanism.

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34. EM&V will also include updates of any NTG factors related to previous NTG estimates for Programs and Measures. All of the updated information will be used in evaluating the continued cost-effectiveness of existing Programs and portfolio. Updates to NTG estimates will be applied consistent with the application of EM&V results pursuant to Attachment B to this Mechanism, but updates to NTG estimates will not be applied retrospectively to Measures that have already been installed or Programs that have already been completed. If it becomes apparent during the implementation of a Program that NTG factors are substantially different than anticipated, the Company will file appropriate Program adjustments with the Commission.

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Exhibit 3

**Opt-Out Eligibility Requirement for Industrial Customers and Certain Commercial Customers**

35. Commercial customers with annual consumption of 1,000,000 kWh or greater in the billing months of the prior calendar year and all industrial customers that implement or will implement alternative DSM/EE Measures may, consistent with Commission Rule R8-69(d), elect to not participate in any utility-offered DSM/EE Measures and, after written notification to the utility, will not be subject to the DSM/EE rider and DSM/EE EMF rider. For purposes of application of this option, a customer is defined to be a metered account billed under a single application of a Company rate tariff. For commercial accounts, once one account meets the opt-out eligibility requirement, all other accounts billed to the same entity with lesser annual usage located on the same or contiguous properties are also eligible to opt-out of the DSM/EE rider and DSM/EE EMF rider. Since these rates are included in the rate tariff charges, customers electing this option shall receive a DSM and/or EE credit on their monthly bill statement.

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36. Opt-out eligible customers that have received DSM/EE Program incentives will be subject to the applicable DSM/EE rider and DSM/EE EMF rider billings for a period of no less than 36 months.

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37. Eligible non-residential customers may opt out of either or both of the DSM and EE categories of Programs as well as opt back into either or both. If a customer receives Program incentives from a Company DSM or EE Program, that customer must opt-in for a period of no less than 36 months. A customer receiving Program incentives from a DSM Program will be required to pay the DSM portion of the DSM/EE Rider for a period of not less than 36 months. A customer receiving Program incentives from an EE Program will be required to pay the EE portion of the DSM/EE Rider for a period of not less than 36 months.

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**Procedural Matters and General Structure of Riders**

38. The rate period for each proposed DSM/EE Rider will be the next upcoming calendar year at the time of the filing of DEP's annual DSM/EE rider application. The test period used in the development of the DSM/EE EMF Rider will be the most recently concluded calendar year at the time of filing of the application.

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39. For purposes of measuring the cost-effectiveness of Programs and for calculation of the PPI, a Vintage Year will be equivalent to a calendar year.

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40. The annual filing date of DEP's DSM/EE rider application, supporting testimony, and Exhibits will be no later than June 30 of each calendar year.

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41. The hearing to consider the proposed DSM/EE and DSM/EE EMF riders proposed by DEP will be held not less than 98 days after the filing date of the Company's application, supporting testimony, and Exhibits.

42. All DSM/EE and DSM/EE EMF riders shall be calculated and charged to customers based on the annual revenue requirements associated with DSM and EE Programs. Separate DSM/EE and DSM/EE EMF riders shall be calculated for the Residential customer class, the Non-Residential customer classes, and the Lighting class.

43. One integrated (prospective) DSM/EE rider and one integrated DSM/EE EMF rider shall be calculated for the Residential class and the Residential portion of the Lighting class, respectively, to be effective each rate period. The integrated Residential and Lighting class DSM/EE EMF riders shall include all true-ups for each vintage year appropriately considered in each proceeding.

44. Separate DSM and EE billing factors will be available to Non-Residential opt-out-eligible customers. Additionally, the Non-Residential DSM and EE rates and the DSM and EE EMF billing factors will be appropriately considered in each proceeding, so that the factors can be appropriately charged to Non-Residential opt-out eligible customers.

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45. For purposes of normalizing or forecasting kWh sales for its annual DSM/EE and DSM/EE EMF rider filing, DEP shall calculate customer growth, weather normalization, and other applicable adjustments on the basis of the test period and/or rate period for each annual filing, as applicable.

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**Allocation Methodologies**

46. Unless the Commission determines otherwise in a G.S. 62-133.9 DSM/EE rider (or other) proceeding:

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(a) The Program Costs of an approved DSM or EE Program will be allocated to the North Carolina and South Carolina retail jurisdictions and will only be recovered from those customer classes to which the Program is targeted.

(b) No Program Costs of any approved DSM or EE Program will be allocated to the wholesale jurisdiction.

(c) For EE Programs, the costs of each Program will be allocated based on the annual energy requirements of North Carolina and South Carolina retail customers (at the generator), as reflected in the annual cost of service studies.

(d) For DSM Programs, the aggregated costs of DSM Programs will be allocated based on the annual summer coincident peak demand of North Carolina and South Carolina retail customers, as reflected in the annual cost of service studies.

(e) The allocation factors and inputs used to allocate the estimated rate period costs of DSM and EE Programs shall be those drawn from the most recently filed cost of service study at the time the annual cost recovery filing is made. The allocations of costs shall be trued up at the time that finalized and trued-up costs for a given test period are initially passed through the DSM/EE EMF, using the most recently filed cost of service study at the time the filing is made (but for no later year than the period being trued up). For subsequent true-ups of that period, the cost of service study used will be the same as that used for the initial true-up.

(f) For purposes of recovery through the DSM/EE and DSM/EE EMF riders, the Company's North Carolina retail jurisdictional costs for approved DSM and EE Programs and Measures shall be assigned or allocated to North Carolina retail customer classes by directly assigning the North Carolina retail jurisdictional costs to the customer group to which the Program is offered. For the DSDR Program, North Carolina retail jurisdictional amounts shall be allocated to customer classes on the basis of the energy requirements of each class, drawn from the most recently filed cost of service study at the time the annual cost recovery filing is made (adjusted to exclude the energy requirements of opted-out customers). The process of estimating and truing up the class assignments and allocations will be the same as practiced for jurisdictional allocations.

**Cost Recovery**

47. In general, as provided in Commission Rule R8-69 and G.S. 62-133.9(d), but subject to the specific provisions and/or modifications contained in this Mechanism, DEP shall be allowed to recover, through the DSM/EE rider, all reasonable and prudent Program Costs reasonably and appropriately estimated to be incurred in expenses, during the current rate period, for DSM and EE Programs that have been approved by the Commission under Rule R8-68. As permitted by G.S. 62-133.9(d), any of the Stipulating Parties may propose a procedure for the deferral and amortization in future DSM/EE riders of all or a portion of DEP's reasonable and prudent non-capital Program Costs to the extent those costs are intended to produce future benefits. DEP shall be allowed to amortize any costs so deferred over a period of time not to exceed 10 years, unless the Commission determines otherwise.

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48. Pursuant to Commission Rule R8-69(b)(6), except for administrative and general expenses (addressed in Paragraph No. 50 below), DEP

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shall be allowed to earn a rate of return at the overall weighted average net-of-tax rate of return approved in DEP's most recent general rate case on all such unamortized deferred costs (net of income taxes). The return so calculated will be adjusted in any rider calculation to reflect necessary recoveries of income taxes. Pursuant to Commission Rule R8-69(c)(3), the Company is not allowed to accrue a return on NLR or the PPI.

49. With regard to Program Costs incurred prior to January 1, 2016, said costs will be recovered using the amortization rates existing at that time, until such time that those deferred costs are recovered, in their entirety, through the DSM/EE cost recovery clause, unless the Parties recommend, and the Commission approves, a different treatment.

50. Beginning with vintage (calendar) year 2016, DEP may recover, subject to approval by the Commission in the annual DSM/EE rider proceedings, Program Costs incurred, without deferral for amortization in future DSM/EE riders, even if Program Costs incurred for the same Program in prior years have been deferred and amortized.

51. To the extent DEP chooses to defer and amortize in future DSM/EE riders the Program Costs for a Program pursuant to Paragraph No. 46 above, non-incremental administrative and general costs



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reasonably assigned or allocated to, but not directly related to, that Program will be deferred and amortized over a period not to exceed three years, unless the Commission determines otherwise. Pursuant to Commission Rule R8-69(b)(6), DEP shall be allowed to earn a rate of return at the overall weighted average net-of-tax rate of return approved in DEP's most recent general rate case on all such unamortized deferred administrative and general costs (net of income taxes). The return so calculated will be adjusted in any rider calculation to reflect necessary recoveries of income taxes. However, irrespective of the prospective treatment of Program Costs in calendar year 2016 or afterwards, previously deferred administrative and general costs will be recovered using existing amortization rates, until such time that those deferred costs are recovered, in their entirety, through the DSM/EE cost recovery clause, unless the parties recommend, and the Commission approves, a different treatment.

52. The DSM/EE EMF rider shall reflect the difference between the reasonable and prudent Program Costs incurred or amortized during the applicable test period (vintage year) and the revenues actually realized during such test period under the DSM/EE rider then in effect.

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53. For Program Costs not deferred for amortization in future DSM/EE riders, the accrual of a return on any under-recoveries or over-

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recoveries of cost will follow the requirements of Commission Rule R8-69(b), subparagraphs (3) and (6), unless the Commission determines otherwise.

54. The cost and expense information filed by DEP pursuant to Commission Rules R8-68(c) and R8-69(f) shall be categorized by Measurement Unit or Program, as applicable, and period, consistent with the presentation included in the Company's application.

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**Net Lost Revenues (NLR)**

55. When authorized pursuant to Commission Rule R8-69(c) and unless the Commission determines otherwise, DEP shall be permitted to recover, through the DSM/EE and DSM/EE EMF riders, NLR associated with the implementation of approved DSM and EE Measurement Units or Programs, subject to the restrictions set out below.

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56. The North Carolina retail kWh sales reductions that result from an approved measurement unit installed in a given Vintage Year shall be eligible for use in calculating NLR eligible for recovery only for the first 36 months after the installation of the Measurement Unit. Thereafter, such kWh sales reductions will not be eligible for calculating recoverable NLR for that or any other Vintage Year.

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57. Programs or Measures with the primary purpose of promoting general awareness and education of EE and DSM activities, as well as research and development activities, are ineligible for the recovery of NLR.

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58. In order to recover estimated NLR associated with a Pilot Program or Measure, DEP must, in its application for program or measure approval, demonstrate (a) that the program or measure is of a type that is intended to be developed into a full-scale, Commission-approved program or measure, and (b) that it will implement an EM&V plan based on industry-accepted protocols for the program or measure. No pilot program or measure will be eligible for NLR recovery upon true-up unless it (a) is ultimately proven to have been cost-effective, and (b) is developed into a full-scale, commercialized program.

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59. Notwithstanding the allowance of 36 months' NLR associated with eligible kWh sales reductions, the kWh sales reductions that result from measurement units installed shall cease being eligible for use in calculating NLR as of the effective date of (a) a Commission-approved alternative recovery mechanism that accounts for the eligible NLR associated with eligible kWh sales reductions, or (b) the implementation of new rates approved by the Commission in a general rate case or comparable proceeding to the extent the rates set in the general rate case or comparable proceeding are set to

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explicitly or implicitly recover the NLR associated with those kWh sales reductions.

60. Recoverable NLR shall be calculated in a manner that appropriately reflects the incremental revenue losses suffered by the Company, net of avoided fuel and non-fuel variable O&M expenses.

61. Overall recoverable NLR as measured for the 36-month period identified in Paragraph 55 above shall be reduced by any increases in Net Found Revenues during the same periods. The "decision tree" adopted by Order in Docket No. E-2, Sub 931, on January 20, 2015, should be applied for determining what constitutes Net Found Revenues. DEP shall closely monitor its utility activities to determine if they are causing a customer to increase demand or consumption, and shall identify and track all such activities with the aid of the "decision tree," so that they may be evaluated by intervening parties and the Commission as potential Net Found Revenues. Net Found Revenues shall be calculated in an appropriate and reasonable manner that mirrors the calculation used to determine NLR.

62. Recoverable NLR shall ultimately be based on kWh sales reductions and kW savings verified by the EM&V process and approved by the Commission. Recoverable NLR shall be estimated and trued-up, on a Vintage Year basis, in the following manner:



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Exhibit 3

(a) As part of the DSM/EE rider approved in each annual cost and incentive recovery proceeding, DEP shall be allowed to recover the appropriate and reasonable level of recoverable NLR associated with each applicable program and Vintage Year (subject to the limitations set forth in this Mechanism), estimated to be experienced during the rate period for which the DSM/EE rider is being set.

(b) NLR related to any given program/measure and Vintage Year shall be trued-up through the DSM/EE EMF rider in subsequent annual cost and incentive recovery proceedings based on the Commission-approved results of the appropriate EM&V studies related to the program/measure and Vintage Year. The true-up shall be based on verified savings and shall be applied to prospective and past time periods in accordance with the Evaluation, Measurement, and Verification section of this Mechanism.

(c) The true-up shall be calculated based on the difference between projected and actual recoverable NLR for each Program and period under consideration, accounting for any differences derived from the completed and reviewed EM&V studies, including: (1) the projected and actual number of installations per Measurement Unit; (2) the projected and actual net kilowatt-hour (kWh) and kilowatt (kW) savings per installation; (3) the projected and actual gross lost revenues per kWh and kW saved; and (4) the projected and actual deductions from gross lost revenues per kWh and kW saved.

(d) The reduction in NLR due to Net Found Revenues shall be trued up in a manner consistent with the true-up of NLR.

(e) The combined total of all Vintage Year true-ups calculated in a given year's Commission Rule R8-69 proceeding shall be incorporated into the appropriate DSM/EE EMF billing factor.

**Portfolio Performance Incentive (PPI)**

63. When authorized pursuant to Commission Rule R8-69(c), DEP shall be allowed to collect a PPI for its DSM/EE portfolio for each Vintage Year, separable into Residential, Lighting, Non-Residential DSM, Non-Residential EE categories. The PPI shall be subject to the restrictions set out below.

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64. Programs, Measures, and activities undertaken by DEP with the primary purpose of promoting general awareness of and education about EE and DSM activities, as well as research and development activities, that are not directly associated with a Commission approved EE or DSM Program, are ineligible to be included in the portfolio for purposes of the PPI calculation.

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65. Unless (a) the Commission approves DEP's specific request that a pilot program or measure be eligible for PPI inclusion when DEP seeks approval of that program or measure, and (b) the pilot is ultimately commercialized, pilot programs or measures are ineligible for and will not be factored into the calculation of the PPI.

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66. Low-Income Programs or other programs explicitly approved with expected UCT results less than 1.00 shall not be included in the portfolio for purposes of the PPI calculation.

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67. The PPI shall be based on the net dollar savings of DEP's DSM/EE portfolio, as calculated using the UCT. The North Carolina retail jurisdictional and class portions of the system-basis net dollar savings shall be determined in the same manner as utilized to determine the North Carolina retail jurisdictional and class portions of recoverable system costs. The PPI for each Vintage Year shall be incorporated into DEP's DSM/EE or DSM/EE EMF billing factors, as appropriate.

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68. In its annual filing, pursuant to Commission Rule R8-69(f), DEP shall file an exhibit that indicates, for each Program or Measure for which it seeks PPI inclusion, the annual projected and actual utility costs, participant costs, number of Measurement Units installed, per kW and kWh impacts for each Measurement Unit, and per kW and kWh avoided costs for each Measurement Unit, consistent with the UCT,

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related to the applicable Vintage Year installations that it requests the Commission to approve. Upon its review, the Commission will make findings based on DEP's annual filing for each Program or Measure that is included in an estimated or trued-up PPI calculation for any given Vintage Year.

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69. Unless the Commission determines otherwise in an annual G.S. 62-133.9 DSM/EE rider proceeding, the amount of the pre-income-tax PPI initially to be recovered for the entire DSM/EE portfolio for a Vintage Year, excluding Programs not eligible for a PPI, shall be equal to 10.00% multiplied by the present value of the estimated net dollar savings associated with the DSM/EE portfolio installed in that Vintage Year, calculated by Program using the UCT (and excluding Low Income Programs and other specified societal programs). The present value of the estimated net dollar savings shall be the difference between the present value of the annual lifetime avoided cost savings for measurement units projected to be installed in that Vintage Year and the present value of the annual lifetime program costs for those measurement units. The annual lifetime avoided cost savings for measurement units installed in the applicable Vintage Year shall be calculated by multiplying the number of each specific type of Measurement Unit projected to be installed in that Vintage Year by the most current estimates of each lifetime year's per installation kW and kWh savings and by the most current

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estimates of each lifetime year's per kW and kWh avoided costs. In calculating the forecasted initial PPI it will be assumed that projections will be achieved.

70. Unless the Commission determines otherwise in a G.S. 62-133.9 DSM/EE rider proceeding, the PPI for vintage periods subsequent to the approval of this mechanism shall be converted into a stream of no more than 10 levelized annual payments, accounting for and incorporating DEP's overall weighted average net-of-tax rate of return approved in DEP's most recent general rate case as the appropriate discount rate. Levelized annual payments applicable to Programs in prior vintage periods will continue until all such amounts are recovered.

71. For the PPI for Vintage Years 2019 and afterwards, the program-specific per kW avoided capacity benefits and per kWh avoided energy benefits used for the initial estimate of the PPI and any PPI true-up will be derived from the underlying resource plan, production cost model, and cost inputs that generated the avoided capacity and avoided energy credits reflected in the most recent Commission-approved Biennial Determination of Avoided Cost Rates for Electric Utility Purchases from Qualifying Facilities as of December 31 of the year immediately preceding the date of the annual DSM/EE rider filing. However, for the calculation of the underlying avoided energy credits to be used to derive the program-specific avoided energy

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69. For the PPI for Vintage Year 2016, the per kW avoided capacity costs used to calculate avoided cost savings shall be the avoided capacity cost rates approved by the Commission for DEP in the most recent biennial avoided cost proceeding as of the date of the filing of the 2015 DSM/EE cost and incentive recovery proceeding. The per kWh avoided energy costs shall be those reflected in or underlying the most recently filed integrated resource plan (IRP). ¶
70. For the PPI for Vintage Years 2016 through 2017[2], the presumptive per kW avoided capacity costs and per kWh avoided energy costs used to calculate avoided cost savings shall be those determined pursuant to Paragraph 69 above. However, if at the time of initial estimation of the PPI for Vintage Year 2017, either (a) the Company's per kWh avoided energy costs calculated for the purposes of the Company's annual IRP or resource plan update filings have increased or decreased by 20% or more or (b) the Company's per kW avoided capacity costs reflected in the rates approved in the biennial avoided cost proceedings have increased or decreased by 15% or more, the avoided costs (both energy and capacity) will be updated for purposes of the DSM/EE rider proceeding.

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benefits, the calculation will be based on the projected EE portfolio hourly shape, rather than the assumed 24x7 100 MW reduction typically used to represent a qualifying facility.

72. The per kW avoided transmission and avoided distribution (avoided T&D) costs used to calculate net savings for a Vintage Year shall be based on the study update at least every two years only if the study update results in a 20% change from the prior study's avoided T&D costs.

73. Unless DEP and the Public Staff agree otherwise, DEP shall not be allowed to update its avoided capacity costs and avoided energy costs after filing its annual cost and incentive recovery application for purposes of determining the DSM/EE and DSM/EE EMF riders in that proceeding.

74. DEP and the Public Staff will periodically review the issue of the appropriate avoided T&D costs to be used in the Company's calculations of cost-effectiveness and achieved net dollar savings, and, if appropriate, recommend in the Company's annual DSM/EE rider proceeding adjustments to the avoided T&D cost rates. The Company and the Public Staff have agreed to utilize methods and assumptions similar to those utilized in the ongoing joint effort between the Public Staff and Duke Energy Carolinas, LLC, to the extent it is reasonable to do so.

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Exhibit 3

75. When DEP files for its annual cost recovery under Commission Rule R8-69, it shall comply with the filing requirements of Commission Rule R8-69(f)(1)(iii), reporting all measurement and verification data, even if that data is not final, to assist the Commission and the Public Staff in their review and monitoring of the impacts of the DSM and EE Measures.

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76. DEP bears the burden of proving all dollar savings and costs included in calculating the PPI. As provided in Rule R8-68(c)(3)(iii), DEP shall be responsible for the EM&V of energy and peak demand savings consistent with its EM&V plan.

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77. The PPI for each Vintage Year shall ultimately be based on net dollar savings as verified by the EM&V process and approved by the Commission. The PPI for each Vintage Year shall be trued-up as follows:

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(a) As part of the DSM/EE rider approved in each annual cost and incentive recovery proceeding, DEP shall be allowed to recover an appropriately and reasonably estimated PPI (subject to the limitations set forth in this Mechanism) associated with the Vintage Year covered by the rate period in which the DSM/EE rider is to be in effect.

(b) The PPI related to any given Vintage Year shall be trued-up through the DSM/EE EMF rider in subsequent annual cost and incentive recovery proceedings based on the Commission-approved results of the appropriate EM&V studies related to the program/measure and Vintage Year, as determined pursuant to the EM&V Agreement. The true-up shall be based on verified savings and shall be applied to prospective and past time periods in accordance with the Evaluation, Measurement, and Verification section of this Mechanism.

(c) The amount of the PPI ultimately to be recovered for a given Vintage Year shall be based on the present value of the actual net dollar savings derived from all Measurement Units installed in that Vintage Year, as associated with each DSM/EE program offered during that year (excluding Low Income Programs and other specified societal programs), and calculated by DSM/EE program using the UCT. The present value of the actual net dollar savings shall be the difference between the present value of the annual lifetime avoided cost savings for measurement units installed in that Vintage Year and the present value of the annual lifetime program costs for those measurement units. The annual lifetime avoided cost savings for Measurement Units installed in the applicable Vintage Year shall be calculated by multiplying the number of each specific type of Measurement Unit installed in that

Vintage Year by each lifetime year's per installation kW and kWh savings (as verified by the appropriate EM&V study pursuant to the EM&V agreement) and by each lifetime year's per kW and kWh avoided costs as determined when calculating the initially estimated PPI for the Vintage Year. The Stipulating Parties agree to make all reasonable efforts to ensure that all vintages are fully trued-up within 24 months of the vintage program year.

78. The combined total of all Vintage Year true-ups of the PPI calculated in a given year's Rule R8-69 proceeding shall be incorporated into the appropriate DSM/EE EMF billing factor.

79. The PPI for each vintage year shall be allocated to DSM and EE programs in proportion to the present value net dollar savings of each program for the vintage year, as calculated pursuant to the method described herein.

**Additional Incentive**

80. As further incentive to motivate the Company to aggressively pursue offering available cost-effective EE and DSM Programs, if the Company achieves incremental energy savings of 1% of the prior year's DEP system retail electricity sales in any year during the five-year 2019-2023 period, the Company will receive a bonus incentive of $400,000 for that year. Verification of this achievement will be

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obtained through the EM&V process discussed elsewhere in this Mechanism.

**Financial Reporting Requirements**

81. In its quarterly ES-1 Reports to the Commission, DEP shall calculate and present its primary North Carolina retail jurisdictional earnings by including all actual EE and DSM Program revenues, including PPI and NLR incentives, and costs. Additionally, DEP shall prepare and present (1) supplementary schedules setting forth the Company's North Carolina retail jurisdictional earnings excluding the effects of the PPI; (2) supplementary schedules setting forth the Company's North Carolina retail jurisdictional earnings excluding the effects of its EE and DSM Programs; (3) supplementary schedules setting forth earnings, including overall rates of return and returns on common equity actually realized from DEP's EE and DSM Programs in total and stated separately by Program Class (Program Classes are hereby defined to be (a) EE Programs and (b) DSM Programs); and (4) supplementary schedules setting forth earnings, including overall rates of return and returns on common equity actually realized from DEP's (a) DSDR Program and (b) all other Programs, collectively, in the EE Program Class. (Show DSDR Program returns and all other collective EE Program returns separately.) Detailed workpapers shall be provided for each scenario described above. Such workpapers, at a minimum, shall clearly show actual revenues;

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expenses; taxes; operating income; rate base/investment, including components; and the applicable capitalization ratios and cost rates, including overall rate of return and return on common equity.

**Review of Mechanism**

82. The terms and conditions of this Mechanism shall be reviewed by the Commission every four years unless otherwise ordered by the Commission. However, a Stipulating Party may request the Commission to initiate such a review at any time within the four year period. The Company and other parties shall submit any proposed changes to the Commission for approval at the time of the filing of the Company's annual DSM/EE rider filing. During the time of review, the Mechanism shall remain in effect until further order of the Commission revising the terms of the Mechanism or taking such other action as the Commission may deem appropriate.

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**Term**

83. This Mechanism shall continue until terminated pursuant to Order of the Commission.

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Exhibit 3

## Attachment A

The table below groups program changes into three categories: (1) those that should require regulatory approval by the North Carolina Utilities Commission (NCUC) prior to implementation, (2) those that should not require Commission approval but should require advanced notification to be filed with the Commission prior to making the program change, and (3) those that simply require inclusion in a quarterly report that will notify the Commission of all program changes made without Commission approval or advance notice. The Company will continue to share potential program changes with the Public Staff and the Collaborative.

| **Type of Change** | **Description of Change** | **Prior NCUC Approval**[3] | **Advance Notice**[4] |
|---|---|---|---|
| Tariff Revision | Any change to a program that is not explicitly allowed by the existing tariff language. Tariffs shall include information pertaining to the availability of, eligibility for, and applicability of the program, identification of specific measures offered, general description of each measure, maximum incentives offered ("up to $__ per customer, measure unit, etc."), and method(s) of measure delivery. | Yes | No |
| Addition of and Removal from Programs of Measures Actually Offered | The addition of any tariff-authorized measure as an actual offering of a program, and/or the alteration, removal, or replacement of any tariff-authorized measure actually offered as part of a tariffed program, including any such action involving equipment or participant options/choices: | | |
| | 1. That is not consistent with the language of the tariff. | Yes | No |

[3] Petitions for approval shall be filed no later than 30 days prior to proposed effective date, pursuant to Commission Rule R8-68.

[4] Advance notice shall be filed no later than 45 days prior to proposed effective date.

Exhibit 3

| Type of Change | Description of Change | Prior NCUC Approval[3] | Advance Notice[4] |
|---|---|---|---|
| | 2. That results in the erosion of the forward-looking program-level Total Resource Cost (TRC) test ratio, causing it to fall below 1.00.[5] | Yes | No |
| | 3. That results in a net 20% or more reduction in the forward-looking annual energy kilowatt-hour (kWh) or demand kilowatt (kW) savings associated with the program, as calculated for the next full program year affected by the change. | No | Yes |
| | 4. That results in the forward-looking present value of program costs increasing by more than 20%, or the forward-looking program-level TRC test ratio decreasing by more than 20%.[3] | No | Yes |
| | 5. That results in the projected forward-looking net present value avoided costs savings from the program increasing by more than 20%, or the forward-looking program-level TRC test ratio increasing by more than 20%.[3] | No | Yes |
| | 6. That does not fall into one of the five categories above. | No | No[6] |
| Expansion or Reduction of Population to Which a Measure Will be Offered | Expansion of the offering/availability of a measure to other customer groups as authorized or allowed by the tariff but not previously included, or elimination of the availability of a measure to customer groups previously included: | | |
| | 1. That is not consistent with the language of the tariff. | Yes | No |
| | 2. That results in the erosion of the forward-looking program-level TRC test ratio, causing it to fall below 1.00.[3] | Yes | No |

[5] If inadequate market information exists to develop a reasonable estimate of the TRC test ratio, the Utility Cost Test ratio may be used instead, with the TRC ratio being provided as soon as a reasonable estimate thereof can be determined.

[6] Program changes falling into this category shall be set forth in the quarterly Program Modification Report, as noted below.

Exhibit 3

| Type of Change | Description of Change | Prior NCUC Approval[3] | Advance Notice[4] |
|---|---|---|---|
| | 3. That results in the forward-looking present value of program costs increasing by more than 20%, or the forward-looking program-level TRC test ratio decreasing by more than 20%.[3] | No | Yes |
| | 4. That results in the projected forward-looking net present value avoided costs savings from the program increasing by more than 20%, or the forward-looking program-level TRC test ratio increasing by more than 20%.[3] | No | Yes |
| | 5. That does not fall into one of the four categories above. | No | No[4] |
| Changes to Measure Unit Savings or Baseline Standards. | Changes to the unit savings (kWh or kW saved per measurement unit) or efficiency standards for a measure, resulting from technological, regulatory, or other actions or determinations, that alter the incremental and/or baseline energy/load characteristics related to the measure and used to calculate incremental energy/demand savings: | | |
| | 1. That result in the erosion of the forward-looking program-level TRC test ratio, causing it to fall below 1.00.[3] | Yes | No |
| | 2. That result in the forward-looking present value of program savings decreasing by more than 20%, or the forward-looking program-level TRC test ratio decreasing by more than 20%.[3] | No | Yes |
| | 3. That result in the projected forward-looking net present value avoided costs savings from the program increasing by more than 20%, or the forward-looking program-level TRC test ratio increasing by more than 20%.[3] | No | Yes |
| | 4. That do not fall into one of the three categories above. Any such changes will be reflected in the next applicable evaluation, measurement, and verification (EM&V) report, provided the change occurred prior to the sample period used for the subsequent EM&V. | No | No[4] |

Exhibit 3

| Type of Change | Description of Change | Prior NCUC Approval[3] | Advance Notice[4] |
|---|---|---|---|
| Changes in Participant Incentives | Participant incentives associated with any actually offered measures, shall not exceed the maximum incentive established in the tariff for the measure, on a per customer, kWh, or kW basis. Changes in actually offered participant incentives within the maximum limits set by the tariff: | | |
| | 1. That are not consistent with the language of the tariff. | Yes | No |
| | 2. That result in the erosion of the forward-looking program-level TRC test ratio, causing it to fall below 1.00.[3] | Yes | No |
| | 3. That result in the forward-looking present value of program costs increasing by more than 20%, or the forward-looking program-level TRC test ratio of the program decreasing by more than 20%.[3] | No | Yes |
| | 4. That result in the projected forward-looking net present value avoided costs savings from the program increasing by more than 20%, or the forward-looking program-level TRC test ratio increasing by more than 20%.[3] | No | Yes |
| | 5. That do not fall into one of the four categories above. | No | No[4] |
| Unit of Measure | Changes to the internal tracking of a measure component from the tracking initially established for the measure component. | No | No[4] |
| Changes in Estimates of Participant Cost | Changes to the estimated participant costs, unless provided for in the Program tariff or resulting from changes identified elsewhere in this table: | | |
| | 1. That result in the erosion of the forward-looking program-level TRC test ratio, causing it to fall below 1.00.[3] | Yes | No |
| | 2. That result in the forward-looking program-level TRC test ratio decreasing by more than 20%[3]. | No | Yes |
| | 3. That result in the forward-looking program-level TRC test ratio increasing by more than 20%.[3] | No | Yes |

Exhibit 3

| Type of Change | Description of Change | Prior NCUC Approval[3] | Advance Notice[4] |
|---|---|---|---|
| | 4. That do not fall into one of the three categories above. | No | No[4] |
| Other Program Changes | Other program changes: | | |
| | 1. That are not consistent with the language of the tariff. | Yes | No |
| | 2. That result in the erosion of the forward-looking program-level TRC test ratio, causing it to fall below 1.00.[3] | Yes | No |
| | 3. That result in the forward-looking present value of program costs increasing by more than 20%, or the forward-looking program-level TRC test ratio decreasing by more than 20%.[3] | No | Yes |
| | 4. That result in the projected forward-looking net present value avoided costs savings from the program increasing by more than 20%, or the forward-looking program-level TRC test ratio increasing by more than 20%.[3] | No | Yes |
| | 5. That do not fall into one of the four categories above. | No | No[4] |

All program changes which require advance notification shall be filed no later than 45 days prior to the proposed effective date of the change using the Advance Notification Program Modifications Reporting Template. Should any party have concern about the proposed modification, it shall file comments with the Commission within 25 days of the Company's filing of the Advanced Notification Program Modifications Reporting Template. A sample of the Advance Notification Program Modifications Reporting Template is attached. On a quarterly basis, the Company will file with the Commission a notification of program changes that have been made without Commission approval or advance notice, using the Program Modifications Reporting Template attached below.

In addition to the measurements required with respect to the above-described program changes, forward-looking TRC and other cost effectiveness test results shall be provided for review in each annual R8-69 cost recovery proceeding. In the case that a program has experienced a number of separate changes or modifications that have effectively changed the baseline for a program by 15%, a party or intervenor may request that the baseline TRC and other test results be reset for purposes of applying these Flexibility Guidelines. Whenever a change in a program goes into effect as a result of Commission approval or is allowed to go into effect after advance notice, the baseline TRC and other test results will be reset for purposes of applying these Flexibility Guidelines.

Exhibit 3

With regard to all program changes, neither Commission approval, the filing of advance notice, nor the inclusion of the changes in the quarterly Program Modifications Report precludes any party from taking issue with or the Commission from disallowing or amending a program change in a DSM/EE cost recovery proceeding, DSM/EE program approval proceeding, general rate case proceeding, or a similar proceeding.

For purposes of this discussion:

1. "Program" is defined as a group of DSM/EE measures that are appropriately bundled into a group for purposes of program delivery, marketing, and maximizing energy savings. Tariffs are developed for programs and include the availability and applicability of the program, and the customer eligibility requirements. Cost effectiveness is determined at this level.

2. "Measure" is generally defined as a specific and individual activity or item of equipment that provides energy or demand savings. Examples include refrigerator replacement, HVAC heat pump, central air, ground source, lighting fixtures, LEDs, CFLs, etc. One measure may constitute the measurement unit by which the utility tracks costs and savings, or individual measures may be grouped into a single measurement unit. In each approved program tariff, the maximum incentive for each included measure and/or measurement unit will be set forth.

On a quarterly basis, the Company will file a notification, using the Program Modifications Reporting Template below, with the Commission of all program changes that have been made without Commission approval or advance notice.

Exhibit 3

The Program Modifications Reporting Template will include the following information:

| | Description |
|---|---|
| Program Name | The name of the program with the recommended or implemented program change. |
| Description of Change | Details of the change made to the program. For example, the incentive per participant was increased to drive program participation. Although the cost effectiveness per participant declined, the overall program cost effectiveness is expected to increase as a result of more program participants. |
| Type of Change | Identifies the type of program change made. Refer to the table entitled Type of Programs in this document on page one for a list of types of program changes and description of each change. |
| Date of Change | The date the change was implemented. |
| Delta of Change in Cost Effectiveness Test Results | Illustrates the impact that the program change has on the cost effectiveness tests. It reflects the changes in energy savings, program costs and projected participation versus what was reflected in the test results that were originally filed. |
| New Cost Effectiveness Test Results | The new cost effectiveness test scores based on implementation of the proposed program change. |
| Percent of Change in Program Cost | The percentage of change in program costs reflecting the proposed program change(s). |
| Absolute Change in Program Costs | The change in program costs reflecting the proposed program change(s). |
| Percent of Change in Projected Avoided Costs | The percentage of change in projected avoided costs reflecting the proposed program change(s). |
| Absolute Change in Projected Avoided Costs | The change in projected avoided costs reflecting the proposed program change(s). |
| Percent of Change in Program Impacts | The percentage of change in projected annual energy and demand savings reflecting the proposed program change(s), as calculated for the next full program year affected by the change. |
| Absolute Change in Program Impacts | The change in projected annual energy and demand savings reflecting the proposed program change(s), as calculated for the next full program year affected by the change. |

Exhibit 3

Advanced Notification Program Modifications Reporting Template

The Advanced Notification Program Modifications Reporting Template will include the following information as agreed upon by the Parties.

| | **Description** |
|---|---|
| Program Name | The name of the program with the recommended or implemented program change. |
| Description of Proposed Change | Details of the proposed program change to be made. |
| Type of Change | Identifies the type of program change made. |
| Proposed Effective Date of Change | The proposed date to implement the change |
| Delta of Change in Cost Effectiveness Test Results | Illustrates the impact that the program change has on the cost effectiveness tests. It reflects the changes in energy savings, program costs and projected participation versus what was reflected in the test results that were originally filed. |
| New Cost Effectiveness Test Results | The revised cost effectiveness test scores reflecting the proposed program change(s). |
| Percent of Change in Program Cost | The percentage of change in program costs reflecting the proposed program change(s). |
| Absolute Change in Program Costs | The change in program costs reflecting the proposed program change(s). |
| Percent of Change in Projected Avoided Costs | The percentage of change in projected avoided costs reflecting the proposed program change(s). |
| Absolute Change in Projected Avoided Costs | The change in projected avoided costs reflecting the proposed program change(s). |
| Percent of Change in Program Impacts | The percentage of change in projected annual energy and demand savings reflecting the proposed program change(s), as calculated for the next full program year affected by the change. |
| Absolute Change in Program Impacts | The change in projected annual energy and demand savings reflecting the proposed program change(s), as calculated for the next full program year affected by the change. |

## Program Modifications Reporting Template

| Program Name | Original Offer | Description of Change | Type of Change | Date of Change | Delta of Change | | | | New Cost Effectiveness Test Results | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | UCT | TRC | RIM | Participant | UCT | TRC | RIM | Participant |
| | | | | | | | | | | | | |

## Advanced Notification Program Modifications Reporting Template

| Program Name | Description of Proposed Change | Type of Change | Proposed Effective Date of Change | Delta of Change | | | | New Cost Effectives Test Scores | | | | Percent of Change in Program Cost[1] | Absolute Change in Program Cost[1] | Percent of Change in Projected Avoided Cost[1] | Absolute Change in Avoided Cost[1] | Percent of Change in Projected Program Impacts (kWh/kW) | Absolute Change in Program Impacts (kWh/kW) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | UCT | TRC | RIM | Parti-cipant | UCT | TRC | RIM | Partici-pant | | | | | | |
| | | | | | | | | | | | | | | | | | |
| | | | | | | | | | | | | | | | | | |

Rationale for Program Change:

[1] Information provided will be marked as confidential.

## Attachment B

Initial EM&V results shall be applied retrospectively to program impacts that were based upon estimated impact assumptions derived from industry standards (rather than EM&V results for the program or a similar program offered elsewhere in the Carolinas). For all EE programs without prior EM&V results used as the basis for approval, EM&V results shall be applied retrospectively to the beginning of the program offering. For the purposes of the vintage true-ups, these initial EM&V results will be considered actual results for a program until the next EM&V results are received. The new EM&V results will then be considered actual results going forward and applied prospectively for the purposes of truing up vintages from the first day of the month immediately following the month in which the study participation sample for the EM&V was completed. This EM&V will then continue to apply and be considered actual results until it is superseded by new EM&V results, if any.

For all new programs and pilots, the Company will follow a consistent methodology, meaning that initial estimates of impacts will be used until Duke Energy Progress has valid EM&V results, which will then be applied back retrospectively to the beginning of the offering and will be considered actual results until a second EM&V is performed.

## Attachment C

A "decision tree" will be used to evaluate whether activities that may directly or indirectly result in increases in customer demand or energy consumption should be designated by the Company as producing "found revenues" and either filed with the Commission for a determination of their status or reported to the Commission for consideration at its discretion. The Company will create a list of all Duke Energy Progress activities that may produce found revenues by directly or indirectly resulting in an increase in customer demand or energy consumption within the Company's service territory, followed by the elimination, or "filtering out," of activities that meet certain criteria. More specifically, an activity will be eliminated from the list if it meets one or more of the following criteria (the tree itself should be referred to for the precise language of each filter):

(1) The increase in customer demand or energy consumption would have occurred regardless of the activity.

(2) The increase is the result of a new customer account's participation in certain Duke Energy Progress economic development activities that have been found by the Commission not to result in found revenues.

(3) The activity is conducted at the unsolicited request of a governmental unit for the purposes of growing the economy, creating jobs, or enhancing sustainability in the region.

If an activity is not eliminated for consideration by one of these filters, Duke Energy Progress will then evaluate whether the related increase in customer demand or energy consumption is a direct or proximate result of the activity. If it is determined to be so, the Company will designate the activity as one producing found revenues or submit it to the Commission for determination; if not, the Company may presume that the activity does not produce found revenues but will report it to the Commission as part of its annual DSM/EE cost recovery filing. A visual representation of the "decision tree" process follows on the next page.

***"Net lost revenues shall also be net of any increases in revenues resulting from any activity by the electric public utility that increases customer demand or energy consumption, whether or not that activity has been approved pursuant to this Rule R8-68." - Commission Rule R8-68(b)(5)***